Balanced Scorecard Domain School

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OSD – Logistics Systems Management
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Agenda

- **Why is Performance Measurement/Balanced Scorecard important?**
- **What are some tools and techniques to get started?**
- **DoD Logistics Balanced Scorecard**
- **Questions and Discussion**
- **Appendix**

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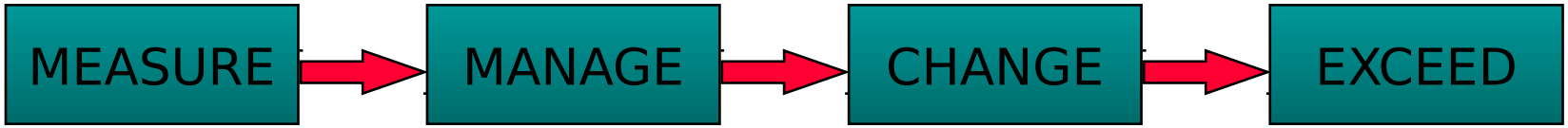
Performance Measures

Why Use Performance Measures?

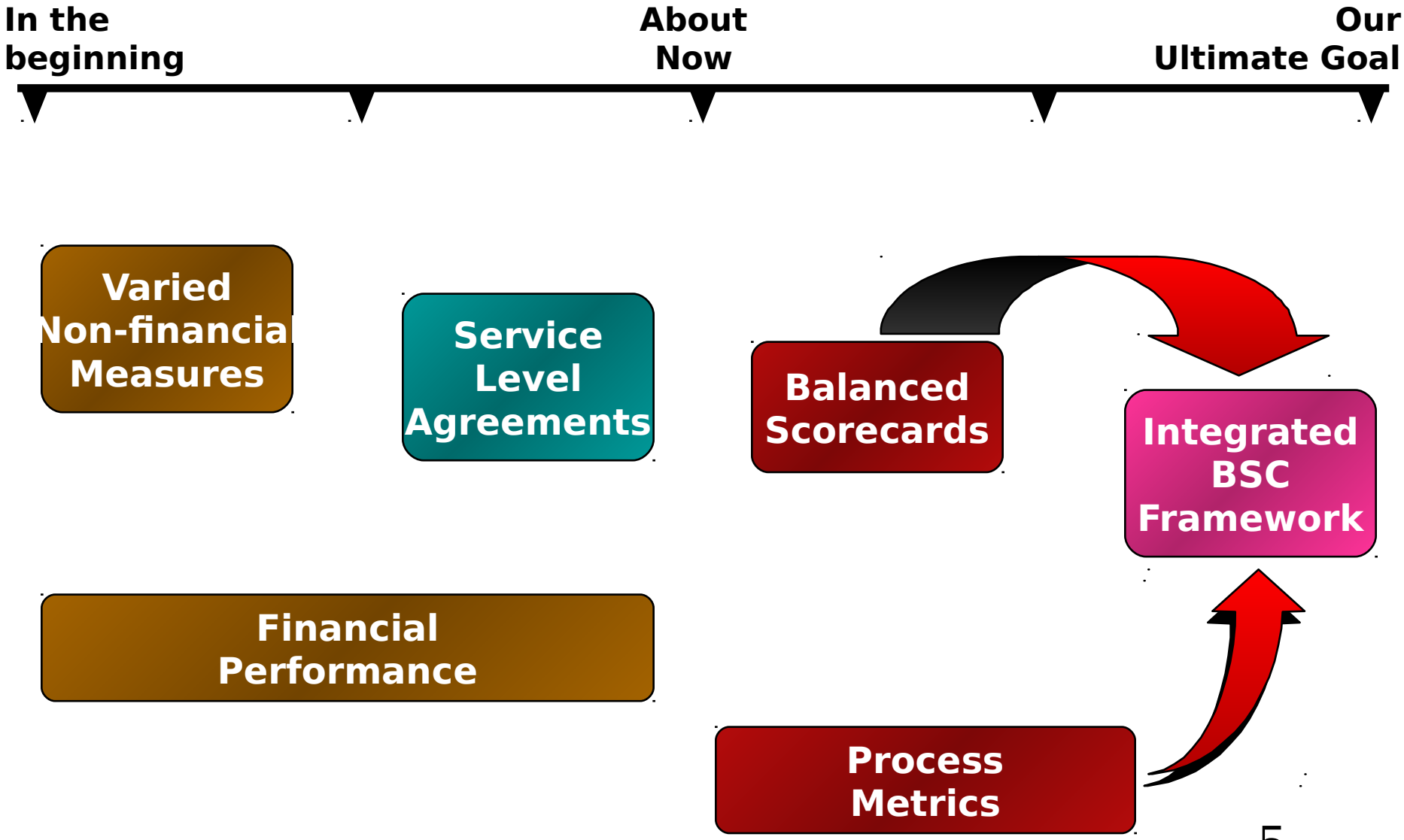
If we can’t measure our processes, we can’t manage our processes

If we can’t manage our processes, we can’t change our processes for improvement

If we can’t improve our processes, we can’t meet or exceed our customers’ expectations



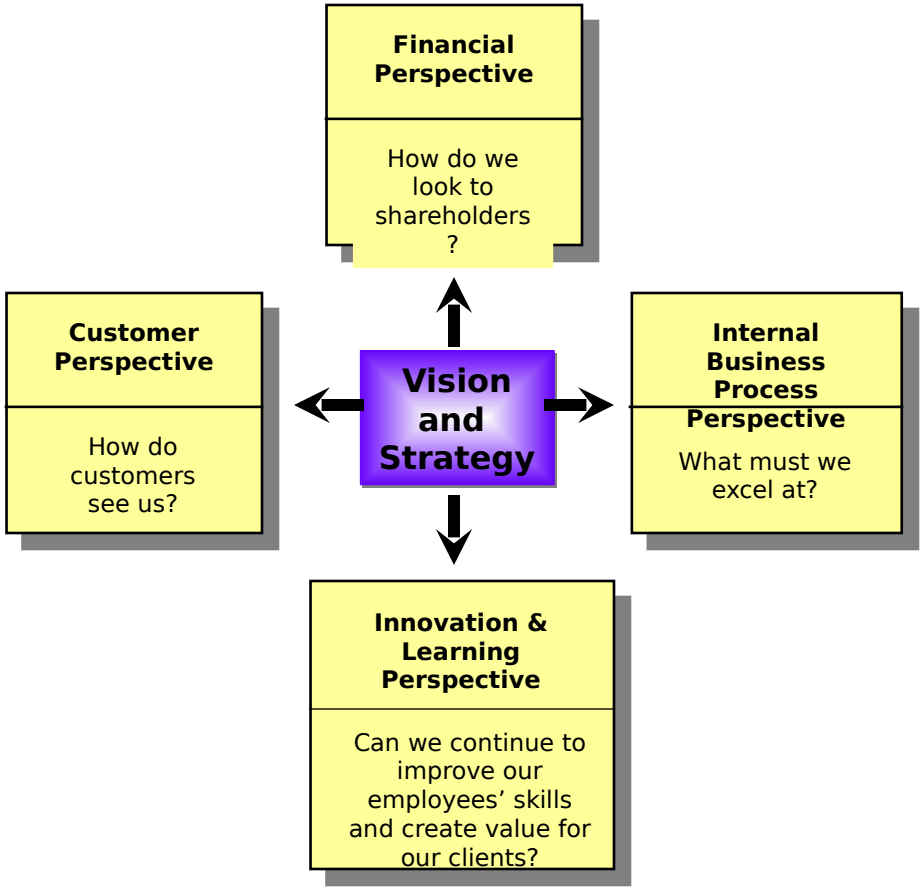
The Evolution of Metrics



What is a Balanced Scorecard?

The Kaplan& Norton Balanced Scorecard

The traditional balanced scorecard model translates an organization's vision and strategy into a set of measures built around four perspectives: financial, customer, internal business processes, and innovation & learning.


Financial Perspective
How do we look to shareholders ?
Customer Perspective
How do customers see us?
Vision and Strategy
Internal Business Process Perspective
What must we excel at?
Innovation & Learning Perspective
Can we continue to improve our employees' skills and create value for our clients?

Robert S. Kaplan and David P. Norton have developed what is considered to be the standard Balanced Scorecard template

Source: Robert S. Kaplan and David P. Norton, "Using the Balanced Scorecard as a Strategic Management System," Harvard Business Review (January-February 1996)

- The balanced scorecard is one of several tools for performance measurement and management.
- The Kaplan and Norton model provides a more holistic approach by supplementing the traditional financial measures with three additional perspectives: *customer, internal business process, innovation and learning:*

  Financial Perspective **-** Is the company creating value for its shareholders?

  Customer Perspective **-** How is the company performing from the perspective of those who purchase the company's products or services?

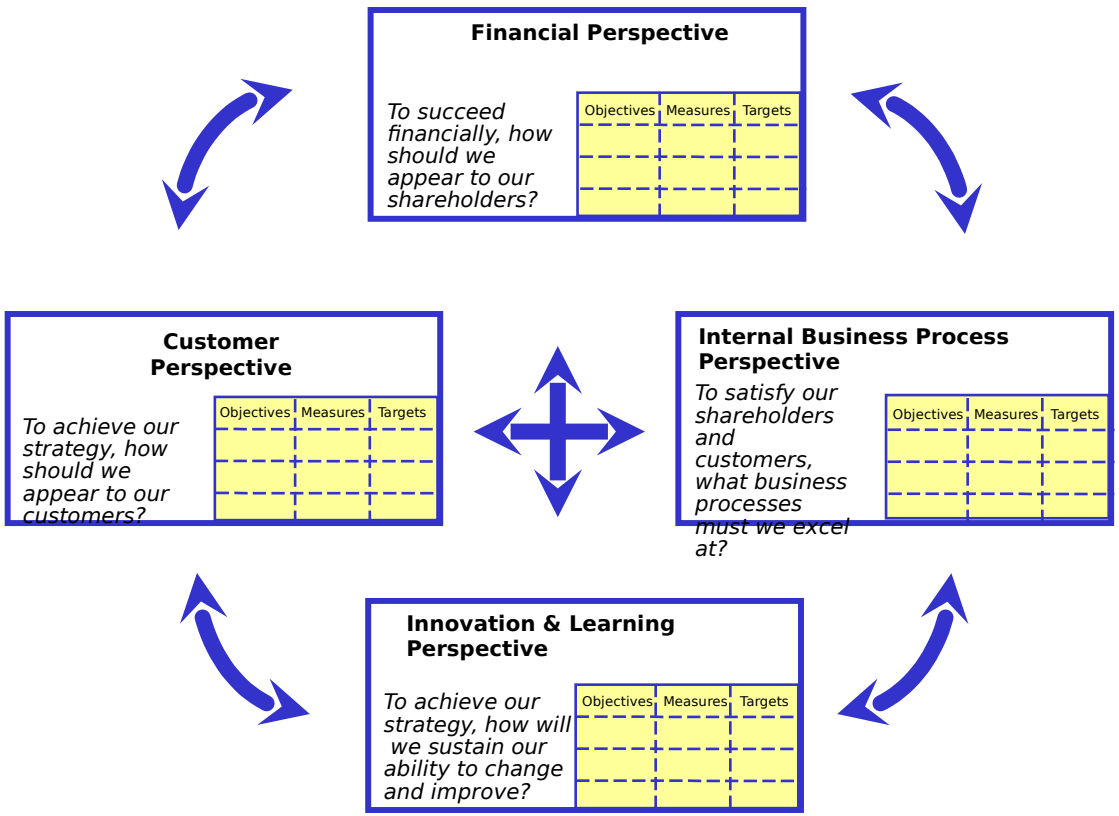
  Internal Business Process **-** How is the company managing its internal business processes to meet its client's expectations? Is throughput improving? Other processes include fulfillment, customer retention, and financial planning.

  Innovation & Learning Perspective **-** Is the company improving its ability to innovate, improve, and learn?
- It incorporates both leading and lagging indicators.
- The emphasis is on balance across multiple dimensions of performance; ensuring that good performance in one area is not offset by poor performance elsewhere.
- The strategy drives the choice of performance

What is a Balanced Scorecard?

Overview of Building a Balanced Scorecard

A balanced scorecard is a strategic measurement and management system that can motivate breakthrough performance.



Source: Robert S. Kaplan and David P. Norton, "Using the Balanced Scorecard as a Strategic Management System," Harvard Business Review (January-February 1996)

A Balanced Scorecard…

- Measures the progress of an organization toward its strategic goals by translating their vision and objectives into tactics and measures across a balanced set of perspectives
- Captures the expectations of customers and measures the company's ability to meet them
- Translates Strategy, Mission and Vision into tangible measures for use by decision makers through to line workers
- Is the culmination of a sophisticated data gathering and analysis process and system
- Can and will drive the process of change, so it must be right!

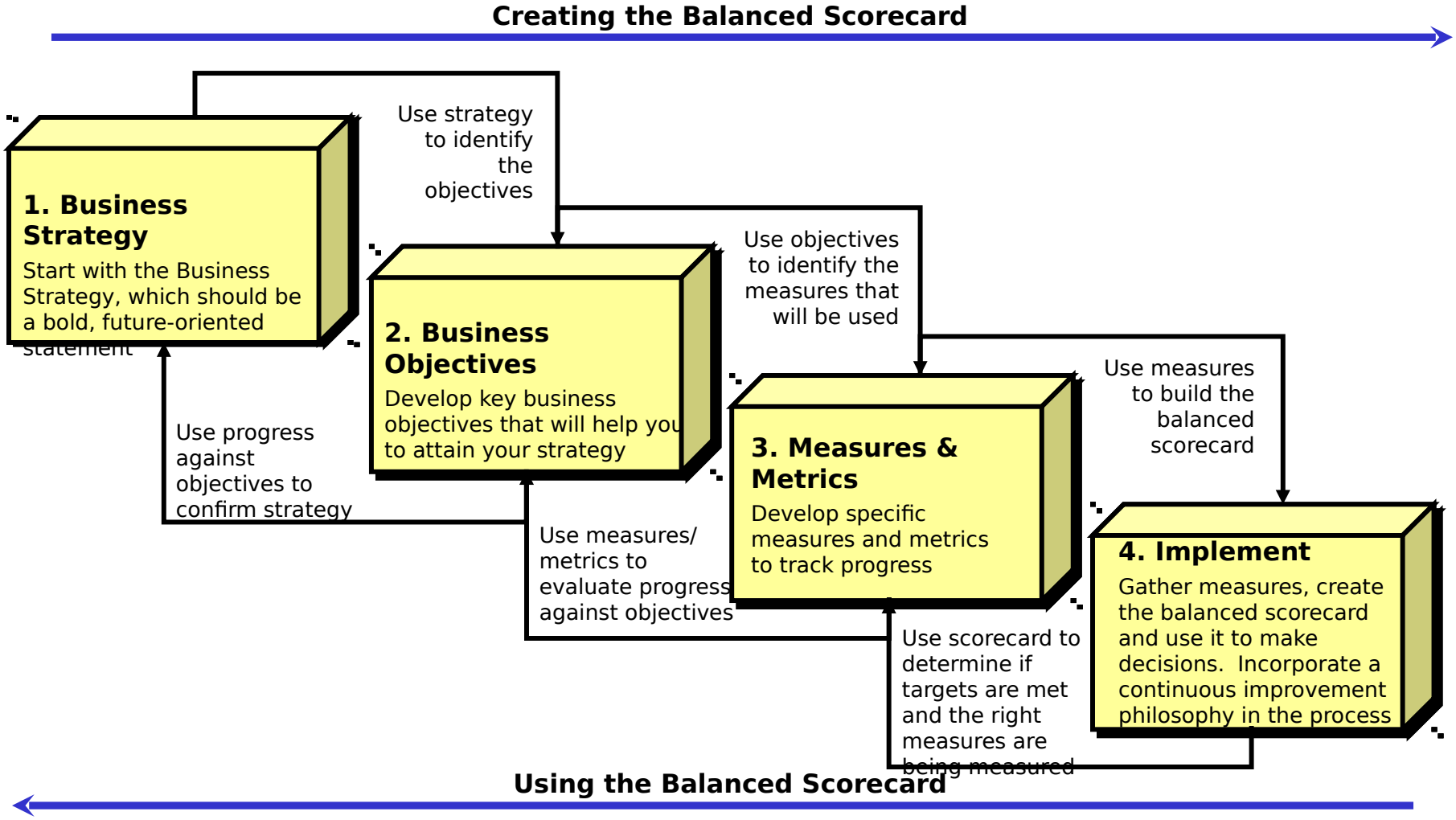
Components of the Balanced Scorecard

- ***Perspectives:*** Four top-down perspectives on enterprise performance (Financial, Internal Business Process, Innovation & Learning, Customer)
- ***Objectives:*** What the company needs to do to accomplish its strategy; one guideline is to have up to sixteen measurable objectives.
- ***Metrics:*** Actionable and tangible measurements which support achieving objectives; this is what makes it real.
- ***Targets:*** Performance level expectations set against the strategic plan. For each metric, set a goal or plan so progress against the objective can be evaluated.

What is a Balanced Scorecard?

Overview of Building a Balanced Scorecard

The process of creating a balanced scorecard starts with the business strategy, and progressively breaks that strategy into tactical measures.

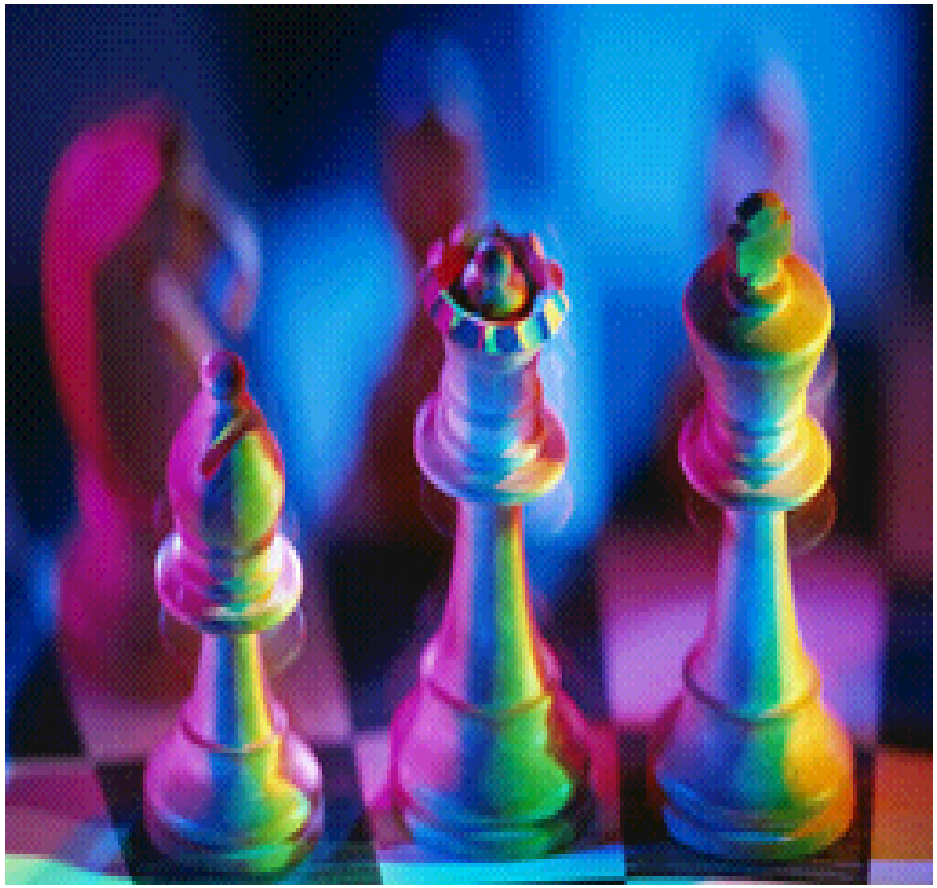

Creating the Balanced Scorecard
1. Business Strategy
Start with the Business Strategy, which should be a bold, future-oriented statement
Use strategy to identify the objectives
2. Business Objectives
Develop key business objectives that will help you to attain your strategy
Use objectives to identify the measures that will be used
3. Measures & Metrics
Develop specific measures and metrics to track progress
Use measures to build the balanced scorecard
4. Implement
Gather measures, create the balanced scorecard and use it to make decisions. Incorporate a continuous improvement philosophy in the process
Use scorecard to determine if targets are met and the right measures are being measured
Use measures/ metrics to evaluate progress against objectives
Use progress against objectives to confirm strategy
Using the Balanced Scorecard

What is a Balanced Scorecard?

Overview of Building a Balanced Scorecard

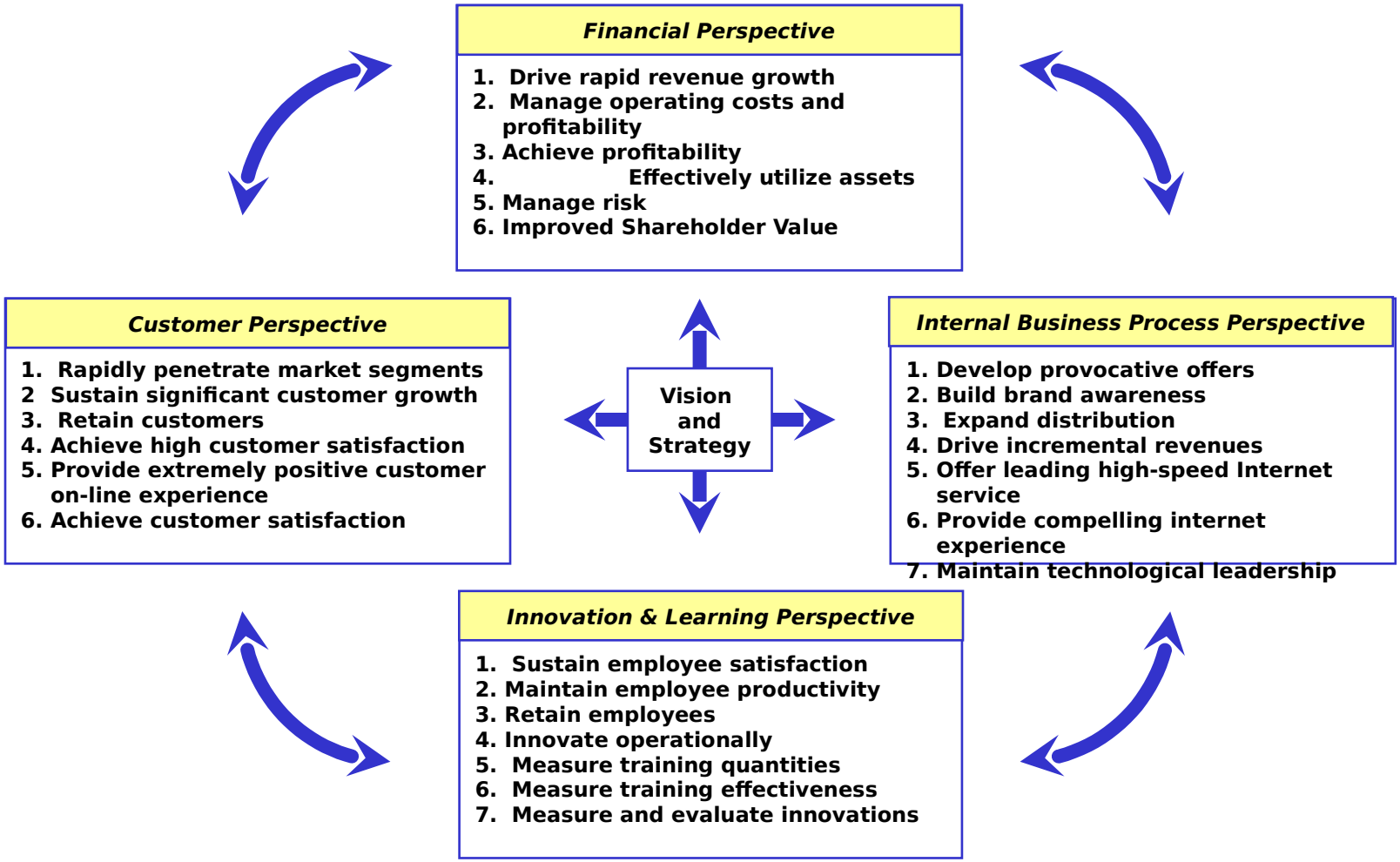
Start with the Business Strategy, which should be a bold, future-oriented statement

Balanced scorecard measures should be used not only to assess the "health" of the organization but to also to challenge the organizational strategy to ensure that it is the most effective one for the company



- The balanced scorecard puts vision and strategy at the center of performance measurement.
- The definition of a clear strategy, mission and vision is critical to the balanced scorecard building process.
- If the strategy isn't clearly defined, there is no way to measure performance against that strategy.
- A balanced scorecard will not give you a strategy but it will inform you quickly if the strategy of the company isn't working
- The balanced scorecard helps align the organization's strategic objectives across the entire organization, at all levels.
- The strategy is used to establishes the organization's objectives, which are then used to define the measures
- The measures pull people at all levels towards the overall strategy
- The measures will then indicate whether the strategy is being fulfilled effectively

Develop key business objectives that will help you to attain your strategy.


Financial Perspective
1. Drive rapid revenue growth
2. Manage operating costs and profitability
3. Achieve profitability
4. Effectively utilize assets
5. Manage risk
6. Improved Shareholder Value
Customer Perspective
1. Rapidly penetrate market segments
2 Sustain significant customer growth
3. Retain customers
4. Achieve high customer satisfaction
5. Provide extremely positive customer on-line experience
6. Achieve customer satisfaction
Vision and Strategy
Internal Business Process Perspective
1. Develop provocative offers
2. Build brand awareness
3. Expand distribution
4. Drive incremental revenues
5. Offer leading high-speed Internet service
6. Provide compelling internet experience
7. Maintain technological leadership
Innovation & Learning Perspective
1. Sustain employee satisfaction
2. Maintain employee productivity
3. Retain employees
4. Innovate operationally
5. Measure training quantities
6. Measure training effectiveness
7. Measure and evaluate innovations

The diagram illustrates an example of organizational objectives. In the balanced scorecard development process, the organizational objectives should provide a balance across the four dimensions of performance.

Develop specific measures and metrics to track progress.

The next step after identifying the organizational objectives is to identify measures & metrics for achieving those objectives.

Objectives	*Measures & Metrics*
Satisfied Clients	• Seamless Service • Improved Quality • Cost Reduction
Motivated People	• Strong Leadership • Effective Training • Reward & Recognition
Balanced Growth	• Reduce Cost • Reduce Backlog • Best clients

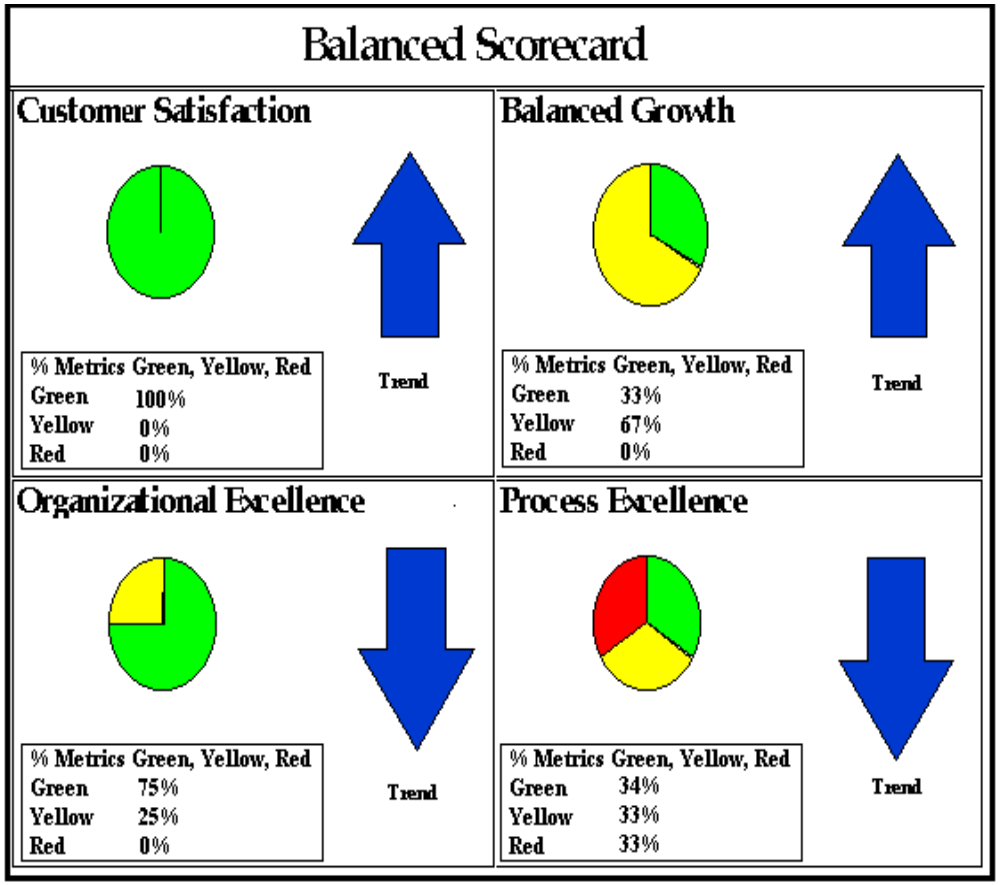
Effective performance measures have a number of key characteristics:

- Measures are part of a *cause and effect relationship*
- Measures are *process-focused*
- Measures are *balanced*
- Measures are *actionable*
- Measures are *vertically & horizontally aligned*
- Measures are *integrated*
- Measures *encourage teamwork*
- Measures *focus priorities*

What is a Balanced Scorecard?

Overview of Building a Balanced Scorecard

Gather measures, create the balanced scorecard, and use it to make decisions. Incorporate a continuous improvement philosophy in the process.



The final outcome of the balanced scorecard development process is a high level and summarized view of the firm's performance measurements. The above example of a balanced scorecard shows that balanced scorecards can be as simple as management chooses them to be

- A successful balanced scorecard implementation will enable employees at all levels of the organization to understand what they can do to help the organization meet its strategic objectives.
- Once implemented, the balanced scorecard allows the organization to test linkages and correlations between the various measures and consequently use this information to manage the organization.
- A successful balanced scorecard implementation takes into account :
  - Change management principles and issues
  - Effective communication throughout the organization
  - Implementing and utilizing the proper technology to gather and produce the measures
  - Implications of operating in the new economy
- The balanced scorecard process also needs to incorporate the philosophy of continuous improvement. This will help ensure that measures are always correct, timely, and relevant.
- Some examples of continuous improvement process activities can include revising measures periodically, ensuring there is a timely feedback, and that there is an effective

What Value Do Balanced Scorecards Provide?

Business Leaders have always tried to answer the following important questions.

- Is our strategy right?

Now, finding and using the right answers is becoming ever more urgent…

- If our strategy is right, why aren't we making our numbers?
- How do we communicate our strategy, mission and vision to our mid-level managers and line workers?
- How do we link our long term strategic objectives to short term financial measures and modify those objectives to reflect real-time learning from our measures?
- How do we reflect the relative riskiness of our business in our measures?
- How do we compare our diverse global businesses and get them to work from a set of common goals?
- Are we improving our internal business processes?
- How can we find and eliminate excess capacity in our business processes?
- Are we taking the expectations of our stakeholders into consideration? Are we able to meet those expectations?
- We see the financials, but are we meeting the wants and needs of our customers? Are they really happy with the products/services that we're providing?
- With everything changing, how do we motivate our employees, incent the desired behaviours and ensure that they have the required skills?
- What happens when good performance in one area is offset by bad performance in another?
- How are my performance measures inter-related?

…by adding new categories of measures, and by linking these measures through objectives to the strategy, the Balanced Scorecard helps to answer the 'why' behind the traditional financial measures.

When implemented properly, the balanced scorecard system ensures that faulty measurement processes and faulty management processes are avoided.

Faulty Measurement Processes	Faulty Management Processes
Exclusively financial	Short term horizons
Focused on functional silos	Lack of ownership by management
Ignore customers and shareholders	Lack of comprehension by line employees
Only focus on lagging metrics	Conflicting rewards
Lack insight to causes	Unambitious targets
Oblivious to competitors	Poor communications
Measurements do not focus on business value	Teamwork discouraged
Result is misalignment to strategic goals	***Result is misalignment to desired behaviors***

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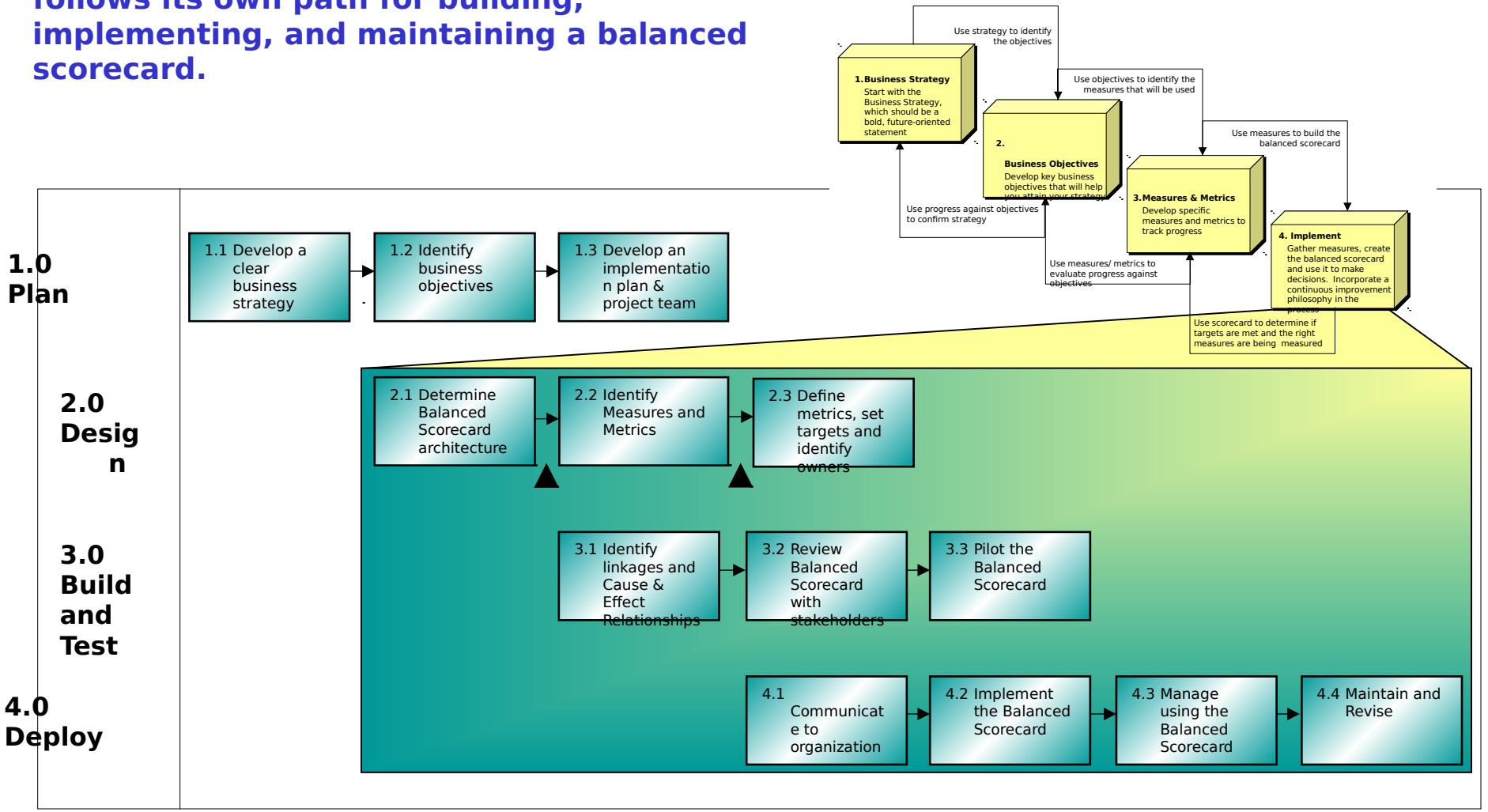
How Do You Build a Balanced Scorecard?

Steps in Developing a Balanced Scorecard

Each organization is unique and so ultimately follows its own path for building, implementing, and maintaining a balanced scorecard.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1.0 Plan
1.1 Develop a clear business strategy
1.2 Identify business objectives
1.3 Develop an implementation plan & project team
2.0 Design
2.1 Determine Balanced Scorecard architecture
2.2 Identify Measures and Metrics
2.3 Define metrics, set targets and identify owners
3.0 Build and Test
3.1 Identify linkages and Cause & Effect Relationships
3.2 Review Balanced Scorecard with stakeholders
3.3 Pilot the Balanced Scorecard
4.0 Deploy
4.1 Communicate to organization
4.2 Implement the Balanced Scorecard
4.3 Manage using the Balanced Scorecard
4.4 Maintain and Revise

The above chart outlines a step by step process for developing a balanced scorecard. Each organization should custom tailor the process to suit their unique needs.

How Do You Build Balanced Scorecard?

1.1 & 1.2 Develop a Business Strategy and Identify Business Objectives

The following inputs need to be defined in the process of developing a Balanced Scorecard:

Business Strategy

- Set a bold and aggressive strategy for your organization
- Use your measures to track progress towards your strategy
- Evaluate your strategy by looking at your balanced set of measures
- Measures should depict a consistent trend if the strategy is correct

Business Objectives

- Business objectives are tangible goals set to meet the corporate strategy
- Business objectives determine the key measures and metrics
- This helps to ensure that each metric selected has a valid purpose

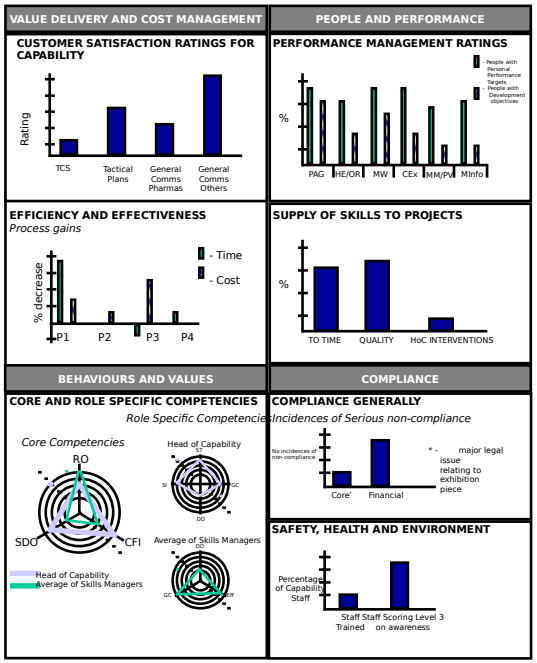
Measures & Metrics

- All measures and metrics used to create the balanced scorecard must be tied to the objectives
- Good metrics will measure progress towards objectives
- To get a balanced set of measures you need metrics from each of the four perspectives

Business Strategy

Lead the industry in the optimization of promotional claims

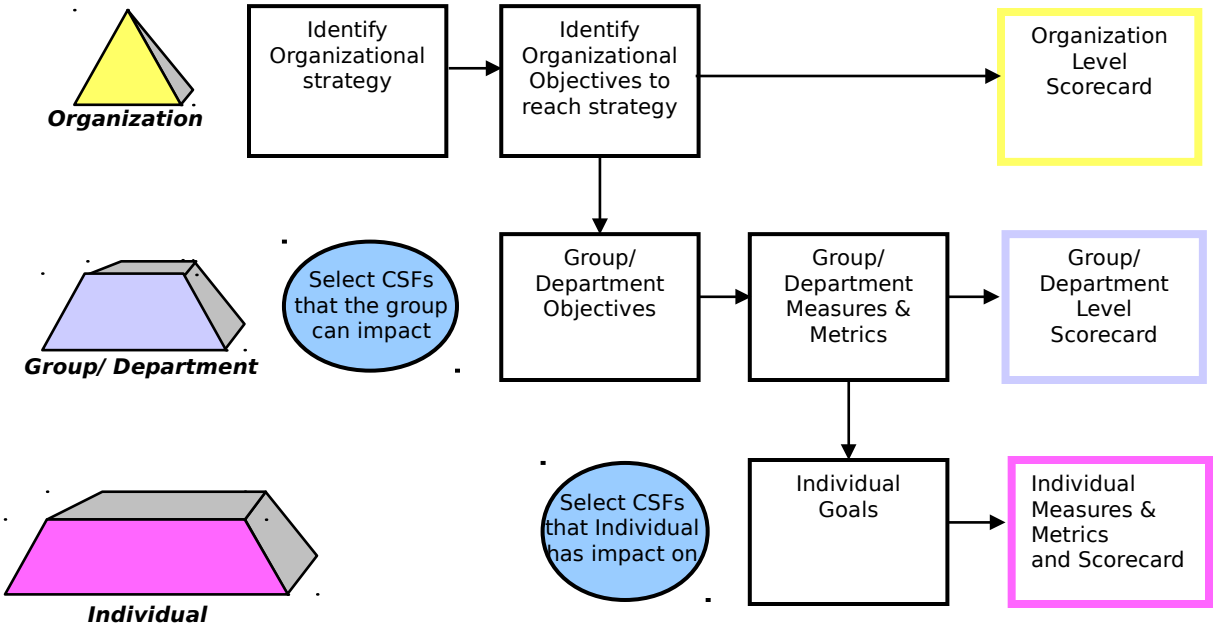
Business Objectives	Measures and Metrics
Promotional Affairs Managers add significant value to the effectiveness of claim statements	Mean satisfaction rating
Promotional Affairs Managers demonstrate appropriate risk management in the optimization of promotional messages from available data	Evaluation of quality of Promotional Guides
	Satisfaction rating from individuals' input to general promotional activities
Complaints are effectively managed in both directions to maintain competitive advantage	Interpretation of # complaints received/ successfully defended/business significance of outcome
	Interpretation of # complaints made/ successfully concluded/business significance of outcome



How Do You Build Balanced Scorecard?

2.1 Determine Balanced Scorecard Architecture

Balanced scorecard architecture is unique to each organization and is dependent on what measures and metrics the company decides to focus upon. Scorecards can be developed for each level of the organization - this would help the employees to understand and follow the corporate strategy.



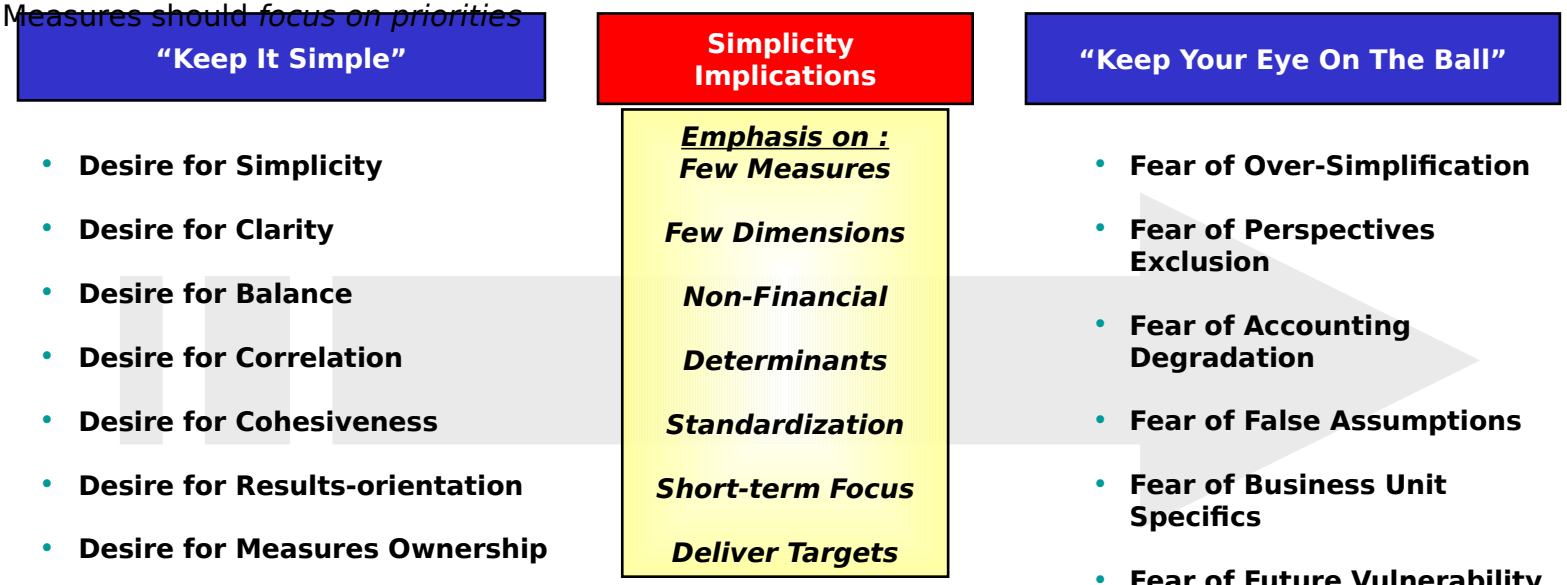
This diagram shows how the organization's strategy can be drilled down the organization into objectives, critical success factors (CSF) and measures which have meaning to individuals at all levels of the organization. It also shows that balanced scorecards need not only be developed at the organizational level. They can also be developed for each level of the organization

- The balanced scorecard building process is an iterative process with a link to the organization's strategy
- The scorecard provides a mechanism for aligning the individuals' goals with organizational goals
- In this process, corporate level measures can be broken down to lower level metrics within the organization
- This enables local managers and employees to determine where they need to focus their efforts and what they must do well in order to improve the organizational effectiveness
- In this regard, scorecards can also be created for each level of the organization
- From the individual's perspective, the balanced scorecard process helps employees to make a connection between their

What gets measured gets focused upon, so make sure the measures are correct!

- Process Excellence Principles

- Measures should be part of a cause and effect relationship. Establishing cause and effect relationships are state of the art according to industry practitioners (see page 26 for more details)
- Measures should be *process-focused*. This implies focusing on business outcomes vs. functional department performance only
- Measures should be *balanced*. Metrics should measure each of the perspectives on the balanced scorecard. For example, this implies focusing on supporting simultaneous optimization of cost, service, quality and safety
- Measures should be *actionable*. This means that the measures should providing a mechanism through which corrective action can be taken
- Measures should be *vertically & horizontally aligned* between organization levels
- Measures should be *appropriately integrated* into incentive programs and reward structures. This will help in encouraging the desired behaviours.
- Measures should *encourage teamwork*
- Measures should *focus on priorities*



The above diagram shows how the desire to keep measurements simple may backfire if a careful balance is not maintained

How Do You Build Balanced Scorecard?

2.3 Define Metrics, Set Targets, and Identify Owners

You get what you measure, so make sure what you measure is what you want.

Guiding principles for selecting measures & metrics

What gets measured gets done

- People will do what they are measured on and rewarded to do
- Performance measures should focus on measuring results and encouraging the behavior we want -correlating directly with the competencies required for a particular job
- People should not be held accountable for what is not measured and reported

Keep it simple

- Performance measures need to be simple and easy to understand and communicate
- The information required should be collected honestly and at reasonable cost, considering factors such as the measurement tool used and time required to track and analyze the data at each organization level

Measures must be meaningful

- Performance measures must be meaningful to the people who use them
- Performance measures must be related to business objectives and critical success factors
- Performance measures must be comparable over time so that improvements can be charted
- Performance measures must be comparable across peer groups, where similar behavior is expected
- Measures must be objective and quantifiable
- People must be able to visualize and act on the measures. Too often measures are developed but never used because they are not presented in an appropriate way

Measures must be controllable

- The person or people being measured must be able to control the outcome of the performance
- The activity for which data is sought must be within the control of the employee

The next step in the process is to define the metrics that have been identified, set the targets for each metric, and identify the owners of the metrics.

Some guidelines during this definition and target setting process are:

- Always tie your metrics back to your objectives which are built on your strategy.
- Define the metrics selected for measurement.
- Set target (plan) values for each metric.
- If you don't know how to measure the metric do not dismiss it. New or dismissed metrics and information often provide the most benefit. Include these metrics with TBD in the scorecard to ensure that you eventually populate it.
- Define the reporting frequency for each metric.
- Identify the process owner or the individual responsible for measuring the metric. Process owners should determine how to measure and improve the accuracy and applicability of the metric.

Metric	Purpose	Description	Target	Process	Frequency of Reporting	Owner
Metric name	Purpose for measuring the metric	Description of the metric	Performance target or plan	The process that the metric measures	How often the metric will be reported	The process owner for the process that the metric measures. Also consider the people who use the measure (the audience)

The template depicted above can be used to further define the metrics to be used in the balanced scorecard building process

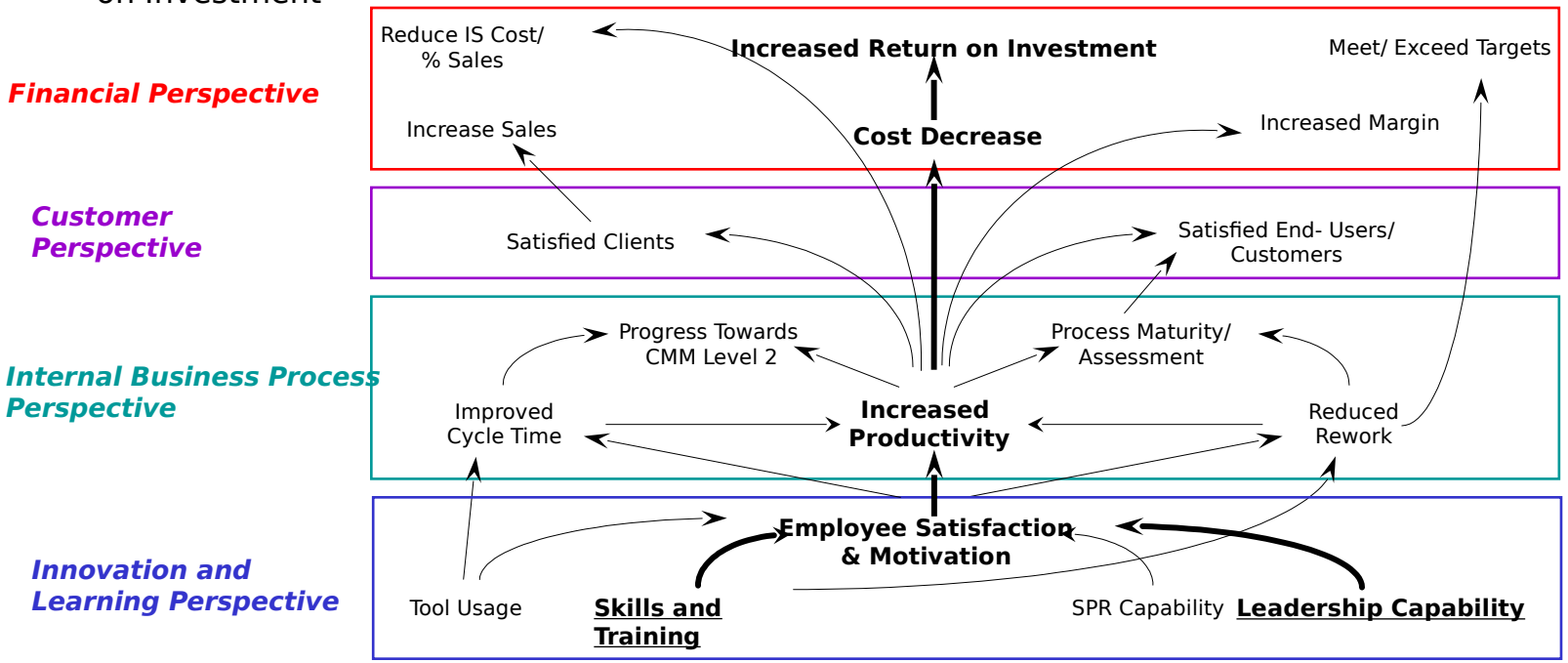
How Do You Build Balanced Scorecard?

3.1 Identify Linkages and Cause & Effect Relationships

Every measure on the balanced scorecard should be an element in a chain of cause and effect relationships that will achieve the strategic objectives.

An example of a cause and effect relationship can be outlined as follows:

- IF we improve Leadership Capability AND give employees the Skills and Training they need to perform their jobs, THEN we will improve Employee Satisfaction & Motivation
- Consequently, IF we improve Employee Satisfaction & Motivation, THEN Productivity will increase since Employee Satisfaction & Motivation is a driver of Productivity
- IF we increase Productivity, THEN Cost will Decrease which will ultimately result in an Increased Return on Investment



An example of a cause and effect linkages between measures. The goal here is to ensure that all measures are consistent, coherent, and related to each other. This hypothesis can be tested upon implementation.

How Do You Build Balanced Scorecard?

The change management element must not be underestimated. Just changing the metrics is the easy part. It is more difficult to get people to begin to truly adopt and use it as a new way of managing the business.

A successful balanced scorecard implementation is dependent on several factors.

- It must be driven from the top of the organization and the leadership needs to be committed to its success
  - Board-level/C-Level sponsorship
- Effective communication is needed throughout the project and the organization
  - Communicate the need for change to all impacted people and groups
  - Why do we need new measurements? What is wrong with the old measures?
  - What is a scorecard, what are the measurements and why are they important?
  - How will the scorecard will be used and how will it impact me?
  - How can each department and individual contribute to achieving the corporation's strategy?
- New balanced scorecards will not be effective unless you change behaviors
- Determining how you will overcome resistance to changing performance measures or becoming measured
- Linking rewards (pay or recognition) to new performance measures is important to get the desired behaviors and outcomes. It is important to integrate the new measures into the organization first before linking the rewards. If this step is rushed it can lead to linking rewards to the wrong measures or behaviors.
- Integrating change implementation plans with project workplans. Take the organization's change history into account when planning
- Finding and removing obstacles before change begins
- Finding and utilizing resources and people that support the change effort
- Allowing adequate time for people to accept change
- Viewing managing change as a continuous process
- Empowering people to change through information, participation & training
- Preparing for temporary downturn in attitudes and productivity at first

How Do You Build Balanced Scorecard?

Performance Management will be critical to the success of the balanced scorecard change journey.

Some key Change Management Principles can also be applied in the Balanced Scorecard journey

Enablement involves the activities that produce the capabilities and deliverables, such as systems, training and reorganization. Enablement activities are driven largely by the specific initiative

Navigation ensures that all the relevant tools and techniques for managing the program are applied, in a coordinated way. Navigation deals with such issues as maintenance and management of the business case for the change journey.

Ownership ensures the individuals within the organization buy into the changes and adapt their behavior accordingly. This is the ultimate objective of the change journey; business results will only be delivered if people behave and work differently and this in turn depends on personal ownership.

Leadership is necessary to create and maintain the imperative for change, to establish priorities, to provide visible sponsorship, and to make key decisions throughout the change journey. Without strong leadership major change is destined to fail.

How Do You Build a Balanced Scorecard?

4.3 & 4.4 Manage Using the Balanced Scorecard and Maintain and Revise the Balanced

Long term sustainability and improvement of the balanced scorecard and its processes will be achieved by incorporating a continuous improvement philosophy throughout the organization and by linking the ongoing scorecard review process to the annual strategic planning process.

Ongoing Results Review

- Routine Review of Actual Results
- Root cause analysis
- Behavior review
- Corrective actions
- Lessons learned
- Review of supporting activity measures by department

Scorecard Administration

- Regular data collection
- Emphasize timeliness
- Publication of scorecard results
- Accuracy of measures
- Distribution of scorecard results
- Single point of contact
- Assist with drill down into supporting activity measures

Annual Scorecard Review

- Support of Strategic Objectives
  - Investments linked to measures
  - Capital Plan/Targets
  - Links to long term plans and initiatives
  - Link to supply chain strategy
- Business Results Achieved
  - Actual vs. Target - Improvement targets met
  - Review of lessons learned
  - Behavioral changes achieved
  - Aligned with Financial results

The above diagram illustrates some activities associated with managing and maintaining the balanced scorecard process

- Use the results from the balanced scorecard to mange the business
- The balanced scorecard process needs to be maintained, monitored, and continuously improved if it is to remain effective:
  - Review the results or measures being recorded,
  - Monitor the scorecard administration process, and
  - Perform an annual review of the entire balanced scorecard. This step may have to be done more frequently in the eCommerce word where strategies and objectives change more rapidly
- A continuous improvement philosophy is required throughout the balanced scorecard process. The Will

How Do You Build Balanced Scorecard?

Balanced Scorecards are usually interesting to clients from a theoretical standpoint but take a tremendous amount of commitment to implement because they fundamentally change the way that businesses evaluate performance.

Balanced Scorecard - Lessons Learned

- It is critical that the effort be lead by the most senior executives.
- Balanced scorecards are seldom implemented in isolation to other initiatives and so need to be closely integrated with these other initiatives.
- Build extra time into your plan for establishing the common level of understanding, and implementing the metrics, processes, collection, and reporting. To get the project started, people need to be assigned full-time.
- A set of definitions should be published along with the Balanced Scorecard to ensure the audience is using definitions and calculations consistently
- Identify the needs of the stakeholders, then define consistent, primarily non-financial, measures that are understandable by every employee
- An effective BSC should reflect organizational goals and objectives, it is not a metrics report card or a service level reporting mechanism
- Put interim measures in place until the Balanced Scorecard is implemented
- Focus on trends and improvement not on the

Balanced Scorecard - Lessons Learned cont'd

- Provide fast feedback to managers and employees - directly inform them of success or failure
- Keep the Balanced Scorecard simple and focused on key strategic measures. Don't confuse it with operational or status reporting
- Don't wait until it's perfect to roll it out. The act of publishing and beginning to understand and manage by the metrics drives change and improvement to the metrics and targets
- Educate and motivate the workforce. Confirm / develop measures that people can understand
- Have measures at the Vision and Strategy level that are common to all locations and avoid combining measures into composite scores. Objectives and Action Plan level measures may vary between groups
- Give local managers the authority to define measures appropriate for their objectives and action plans, working within the overall strategy
- Focus on Continuous Improvement. As current needs and issues are addressed, target new areas for improvement and change or adjust measures accordingly

Agenda

- Why is Performance Measurement/Balanced Scorecard important?
- What are some tools and techniques to get started?
- DoD Logistics Balanced Scorecard
- Questions and Discussion
- Appendix

Progress to Date

Objective

- **Define, develop and document common DoD-wide KPI's and Metrics to support end-to-end log processes**

Status

- **Established working group (July 2002)**
- **Surveyed applicable "umbrella" documents (September 2002)**
  - **Quadrennial Defense Review**
  - **Future Logistics Environment**
- **Developed initial strategic objectives (October 2002)**
- **Confirmed approval for strategic Objectives (November 2002)**
- **Drafted metrics for inclusion in phase I BSC (January 2003)**
- **Outlined requirements for development and build of a BSC dashboard (January 2003)**
- **Finalizing DoD Logistics BSC white paper (May 2003)**
- **Gained BBP approval of Level 1 metrics (April 2003)**
- **Incorporated metrics into EI Toolkit (On-going)**

Next Steps

- **Distribute DoD Logistics BSC white paper**
- **Kick-off build phase for the DoD Logistics BSC dashboard**
- **Include in the Architecture Compliance -- linkage to Component scorecards**
- **Document as part of the Operational Architecture**

BSC as a Management Tool

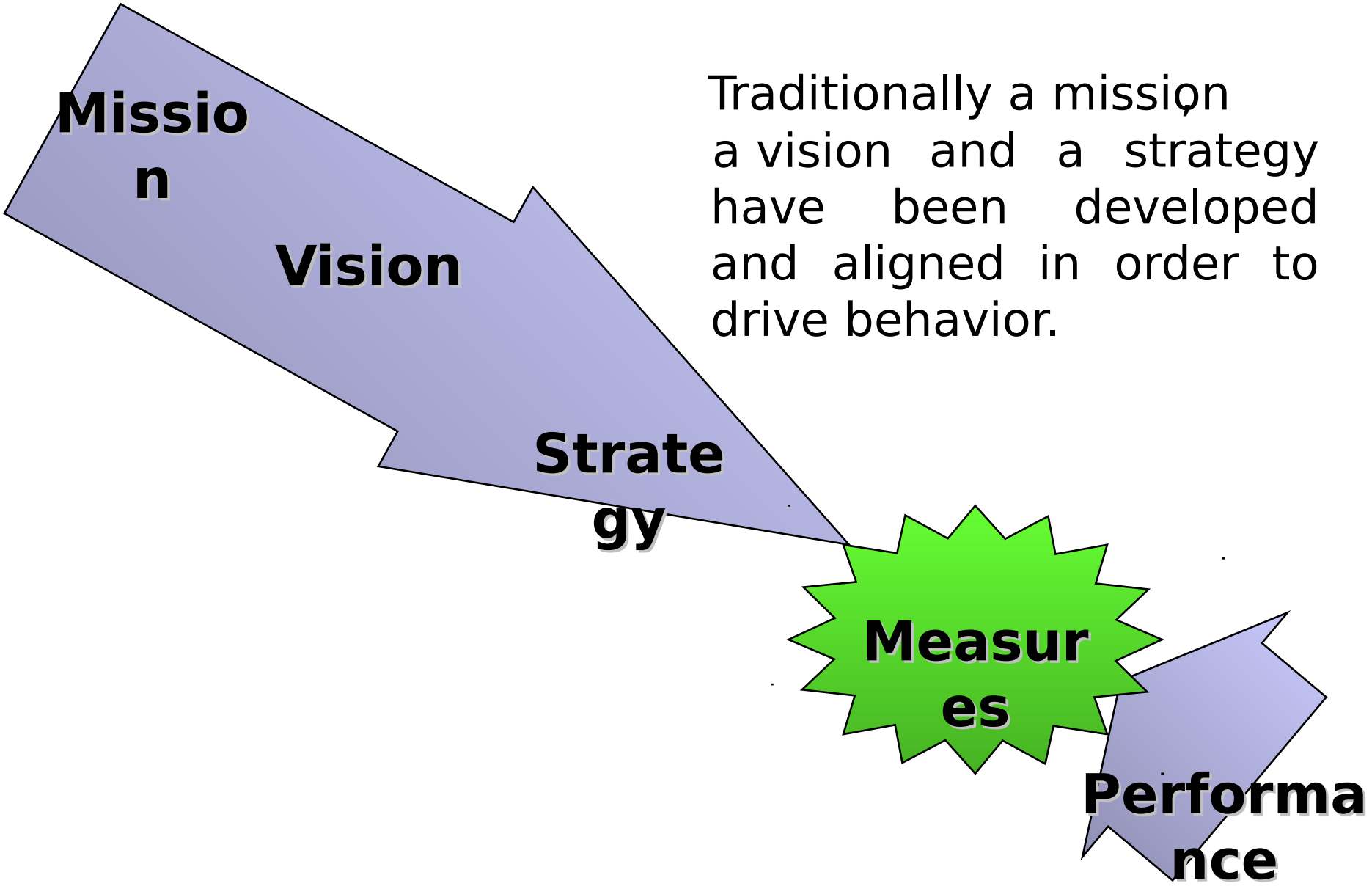
DoD Logistics Balanced Scorecard what it is and how it works:

- **Provides a cross enterprise view of DoD Logistics at an OSD level**
- **Measures the performance of DoD Logistics Enterprise not the implementation of any one initiative**
- **Aligns with the individual BSC from each Service and Agency**
- **Provides guidelines for transformation projects and programs**
- **Evolves metrics as transformation takes hold -- TLCSM, E2E Customer Support, Enterprise Integration, etc.**
- **Contributes to other relevant measurement programs**
- **Maps directly to the Operational Architecture and will follow the same process for compliance**

Other Metrics Activities:
Confirm, Coordinate and Converge

- **President's Management Agenda - DoD**
  - **Human Capital, Competitive Sourcing, Financial Performance, E-Government, Budget & Performance Integration**
- **Senior Executive Council (SEC)**
  - **Risks: Force Management, Operational, Future Challenges, Institutional**
- **Government Performance Results Act (GPRA) - Being Updated**
- **Defense Readiness Reporting System (DRRS) – SORTS +**
- **Business Enterprise Architecture**
- **Service/Agency Scorecards**

The Balanced Scorecard Theory



Traditionally a mission, a vision and a strategy have been developed and aligned in order to drive behavior.

DoD Logistics VISION

To provide Responsive and Affordable Logistics Support to ensure a ready, and sustainable Total Force across *the* full spectrum of military operations

DoD Materiel Stratification

- **Commodity Focus**
  - **Class I: Food**
  - **Class II: Clothing/Textiles (Jacket, Boots, Shovels, Tools)**
  - **Class III: Fuels**
  - **Class IV: Construction Materials**
  - **Class VI: Comfort Materials**
  - **Class VIII: Medical**

- **Weapons Systems Focus**
  - **Class V: Explosives and Ammunition**
  - **Class VII: End Items**
  - **Class IX: Repair Parts**

Roles in the Logistics Chain

Consumer

- User and consumer of weapons systems, materiel, or services.

Customer

- Accountable for and manages the requirements and the associated funding required to obtain materiel, services, or information.
- Includes the concept of Force Provider under Title X, the Combatant Commander, unit of the operating force, NASA, USCG, or any other government agency.

Fulfillment Agent

- May be designated as an agent to plan, schedule, or control the process of executing the logistics chain.

Logistics Chain Manager

- Plans appropriation of logistics chain resources to meet logistics chain requirements.

National Asset Manager (NAM)

- Manages the overall support and is responsible and accountable for meeting the requirement for a commodity, class of weapons system, or service.
- Includes the concept of Executive Agency and Source of Supply (SoS).

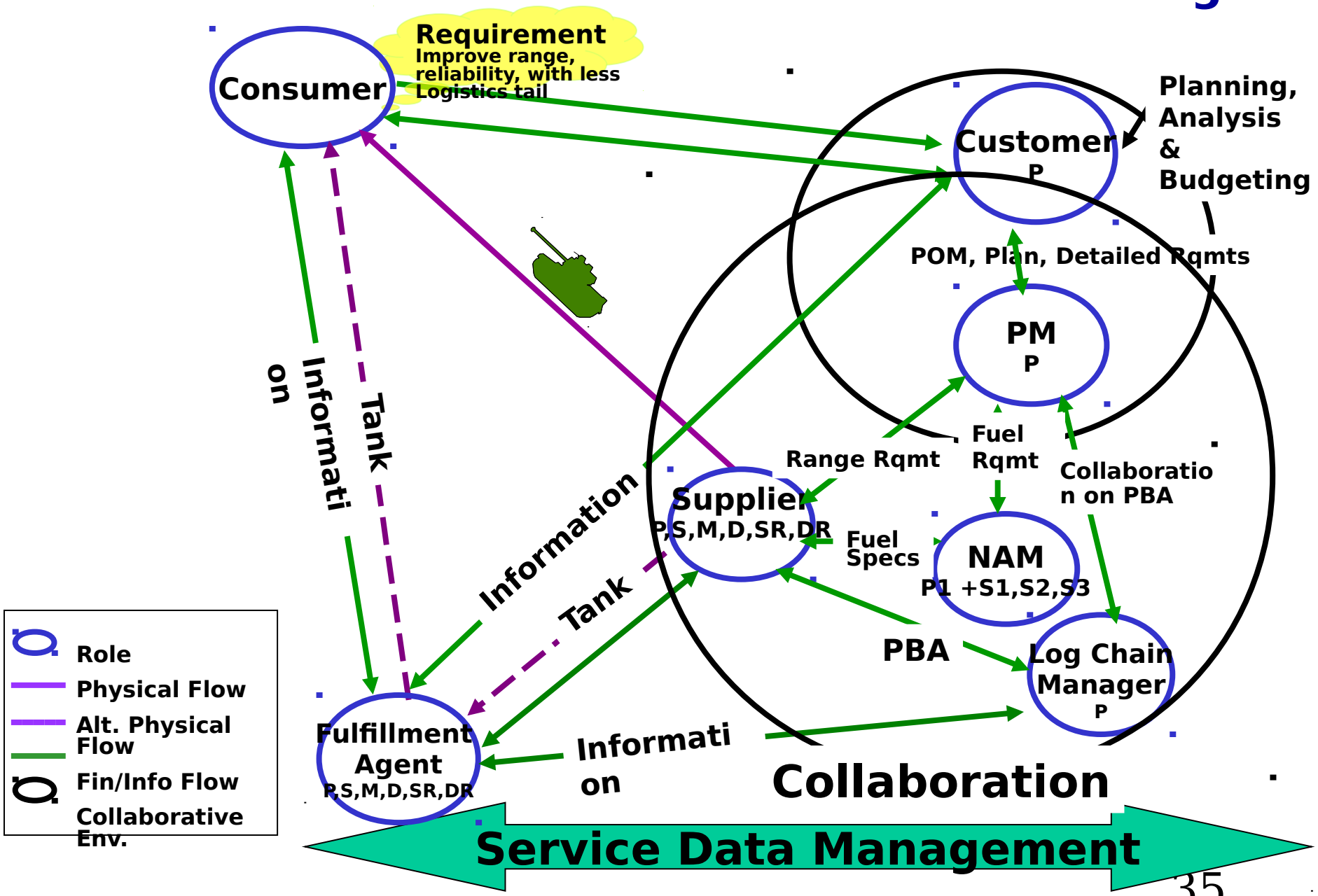
Product Manager (PM)

- Responsible for Total Life Cycle Management of a Weapons System.

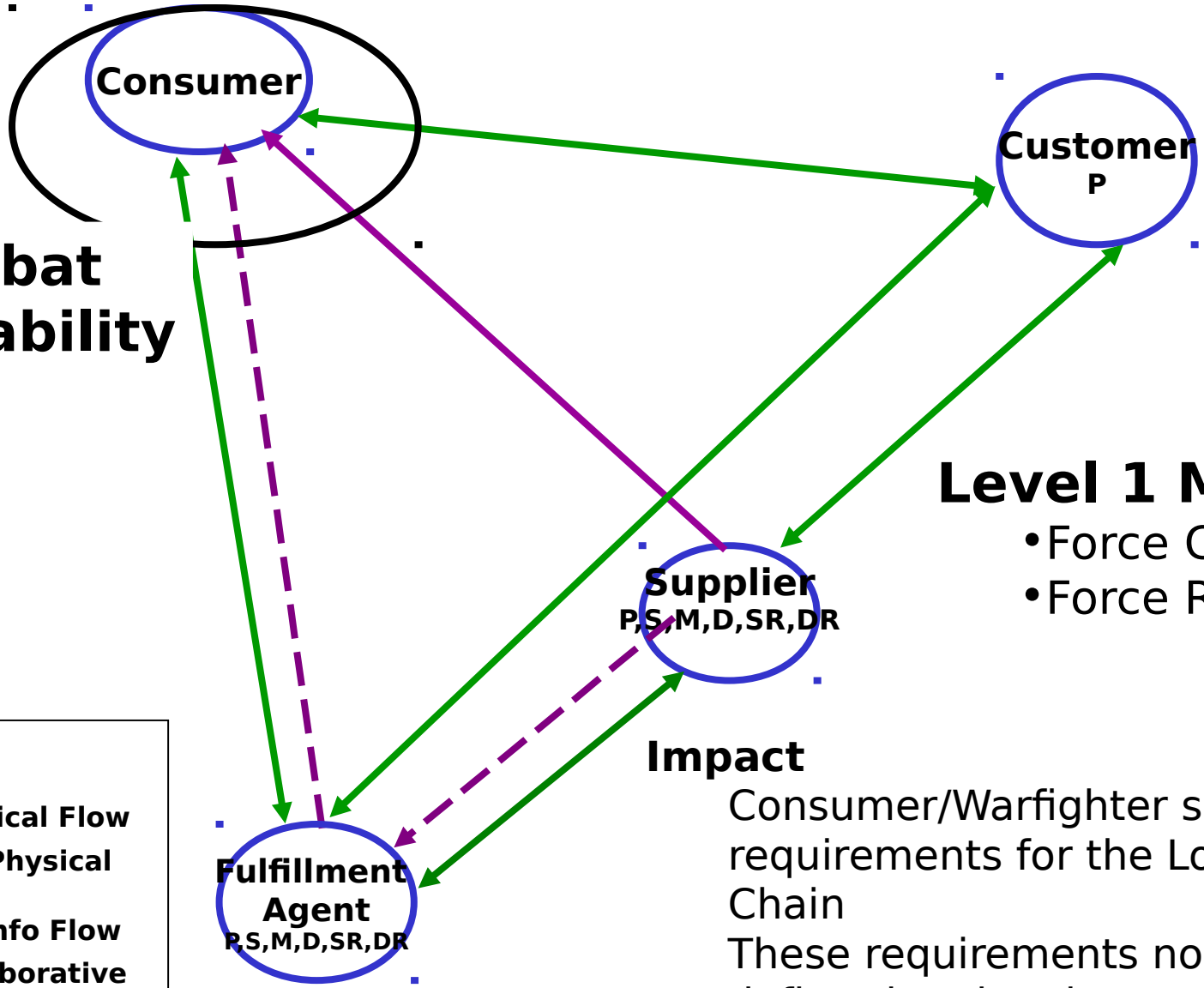
Supplier

- Provides goods and services.
- Extends to infinite tiers of suppliers.

Illustration of roles in Total Life Cycle Systems Mgmt



The Consumer (Warfighter) Point of View



Combat Capability

Level 1 Metrics

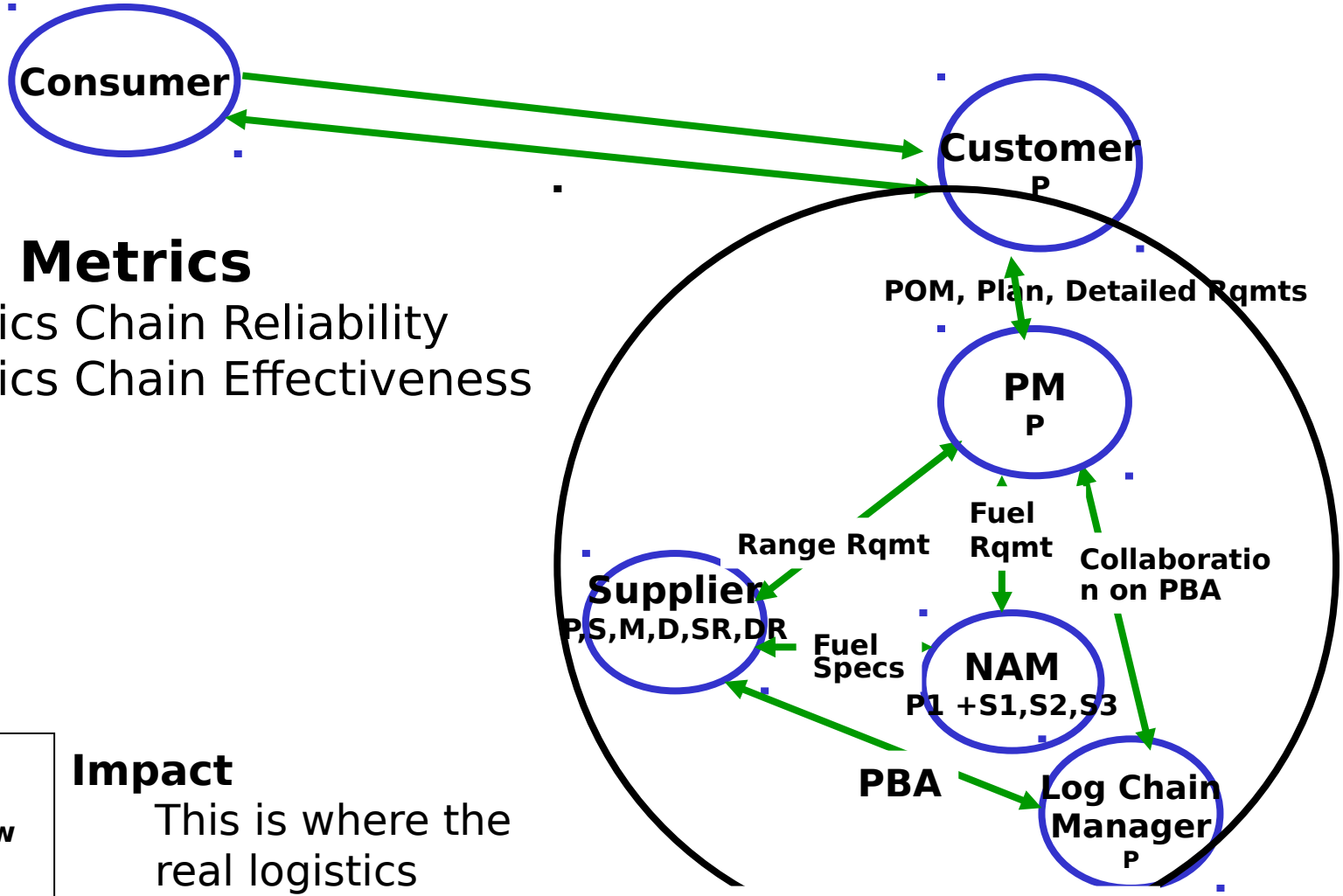
- Force Closure
- Force Readiness

Impact

Consumer/Warfighter sets requirements for the Logistics Chain

These requirements not only define the planning and budgeting cycle, but also kick-off the Logistics Chain Process

Logistics Process Execution



Level 1 Metrics

- Logistics Chain Reliability
- Logistics Chain Effectiveness

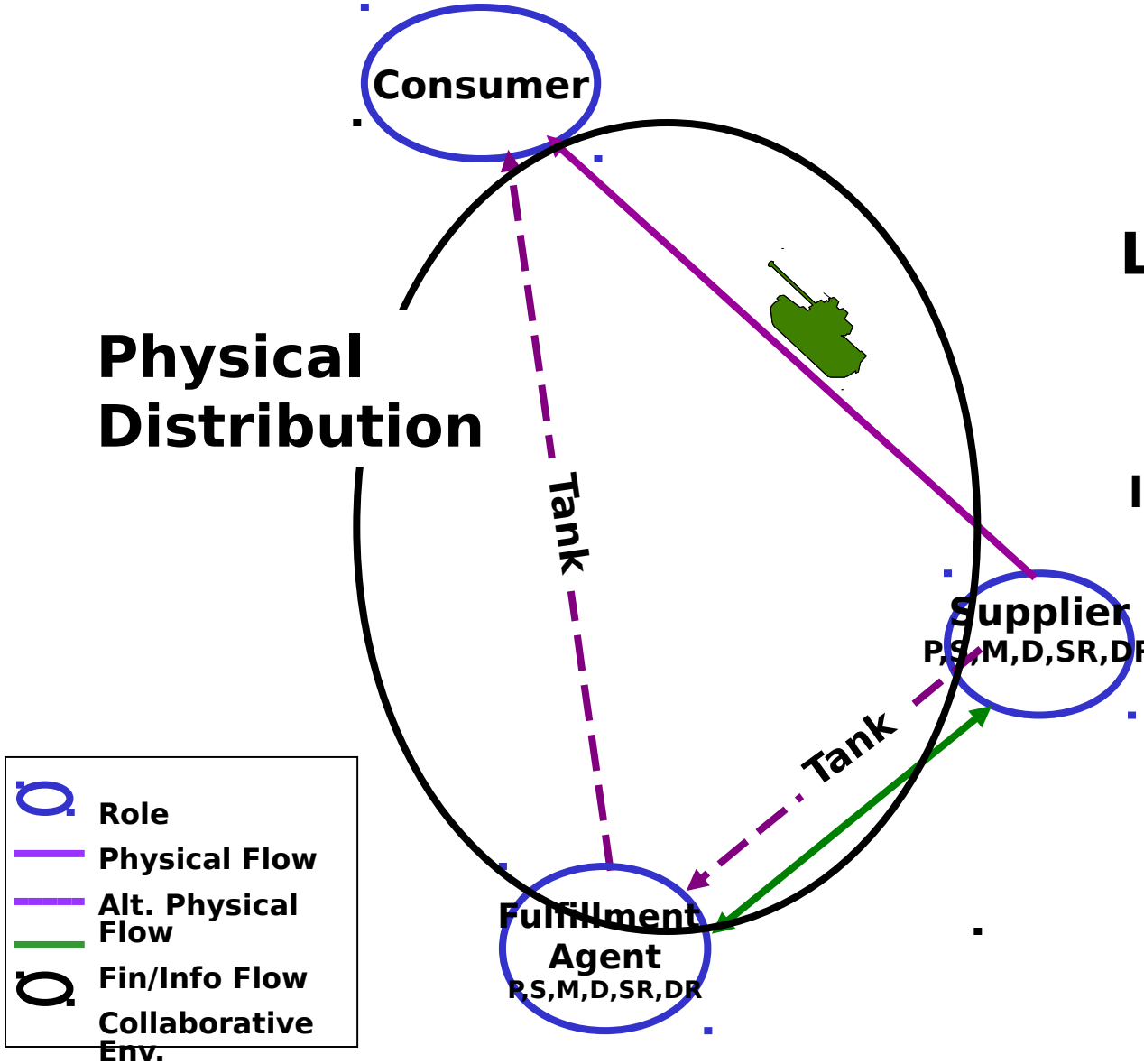
Role
Physical Flow
Alt. Physical Flow
Fin/Info Flow
Collaborative Env.

Impact

This is where the real logistics process execution takes place.

When executed correctly, both consumer and customer confidence rise. Collaboration is essential to bring sustained improvement

Materiel Execution



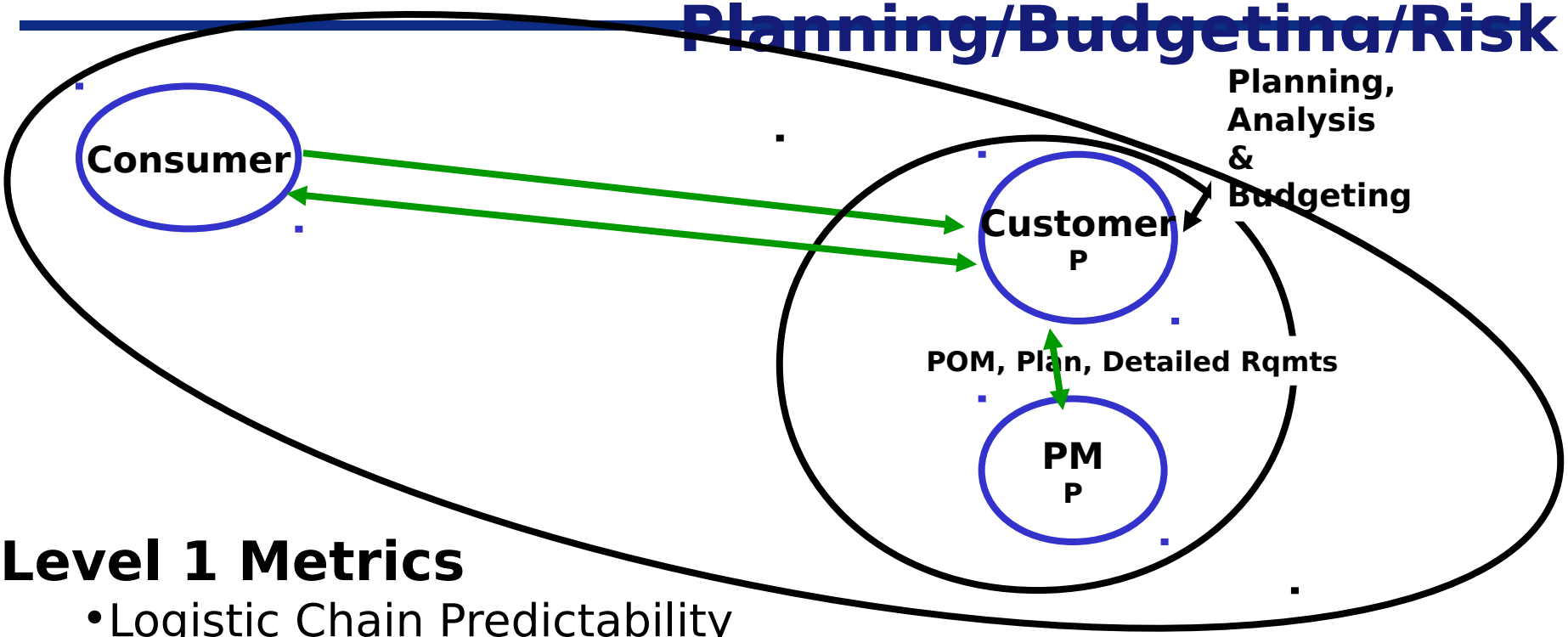
Level 1 Metrics

- Force Sustainment

Impact

This is where the physical flow of materiel and services to the Consumer are delivered and measured against expectations.

Resource & Capability Planning/Budgeting/Risk



Level 1 Metrics

- Logistic Chain Predictability
- Logistics Chain Affordability

Impact

Customer is responsible for managing the demand, thus planning/budgeting for an appropriate level of logistics support. Additionally the collaboration between the roles are captured and delivered performance is measured against SLA/PBA -- setting the foundation for future

Role
Physical Flow
Alt. Physical Flow
Fin/Info Flow
Collaborative Env.

Draft Metrics Hierarchy

The Consumer (Warfighter)

Level 1: Force Closure

Level 2: % Transportation Closure by ULN

Level 2. % Closed by RDD

Level 1: Force Readiness

Level 2: Operational Availability for Critical Systems

Level 2. % of Critical Systems Equipment on hand

Resource & Capability Planning/Budgeting/Risk

Level 1: Logistics Chain Predictability

Level 2: Production/Delivery Flexibility

Level 2: Planning & Re-planning Cycle Time

Level 1: Logistics Chain Affordability

Level 2: Logistics Chain Expense

Logistics Process Execution and Materiel Execution

Level 1: Force Sustainment

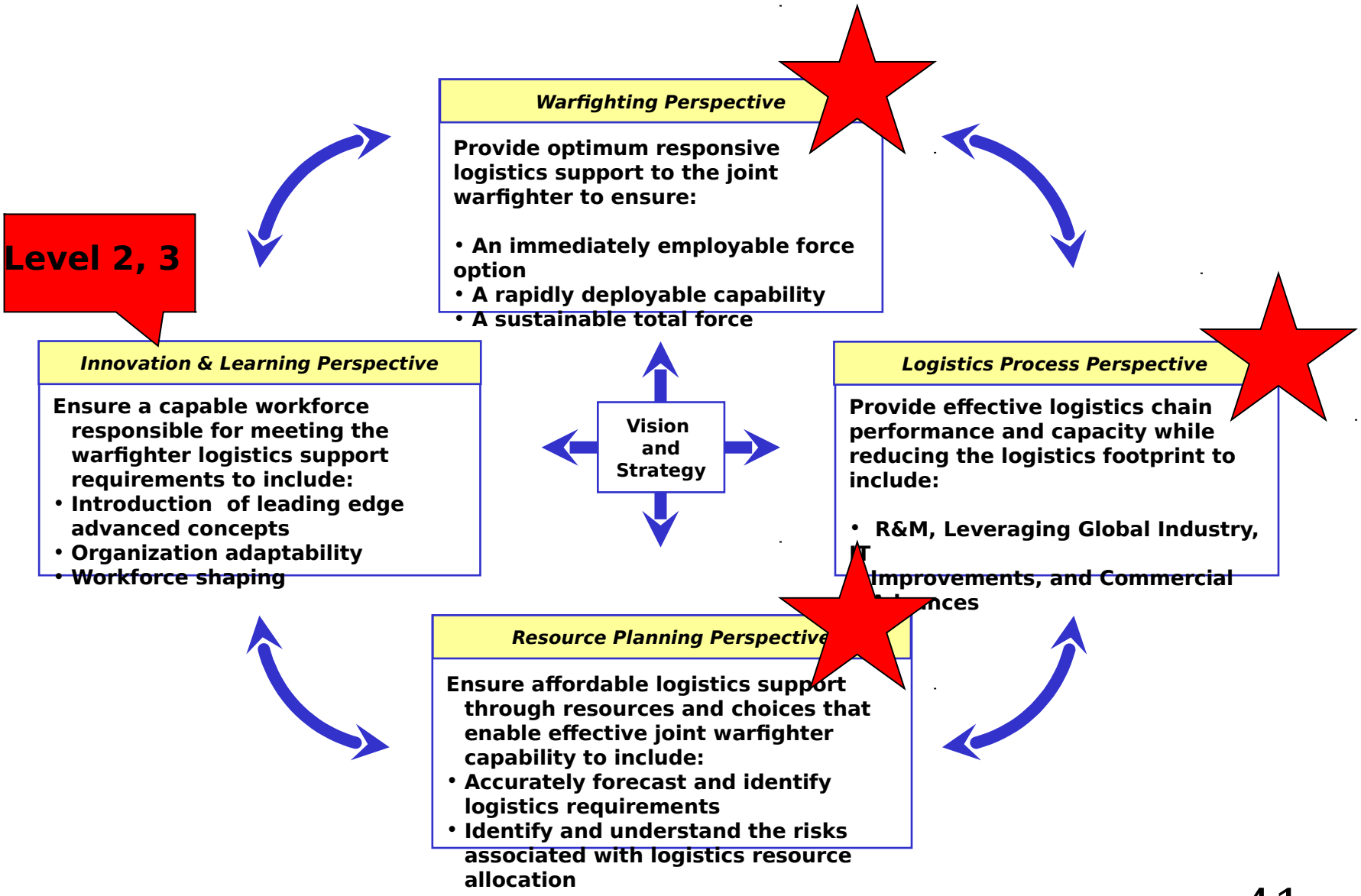
Level 1: Logistics Chain Reliability

Level 1: Logistics Chain Effectiveness

Level 2: Perfect Order Fulfillment (On time Delivery)

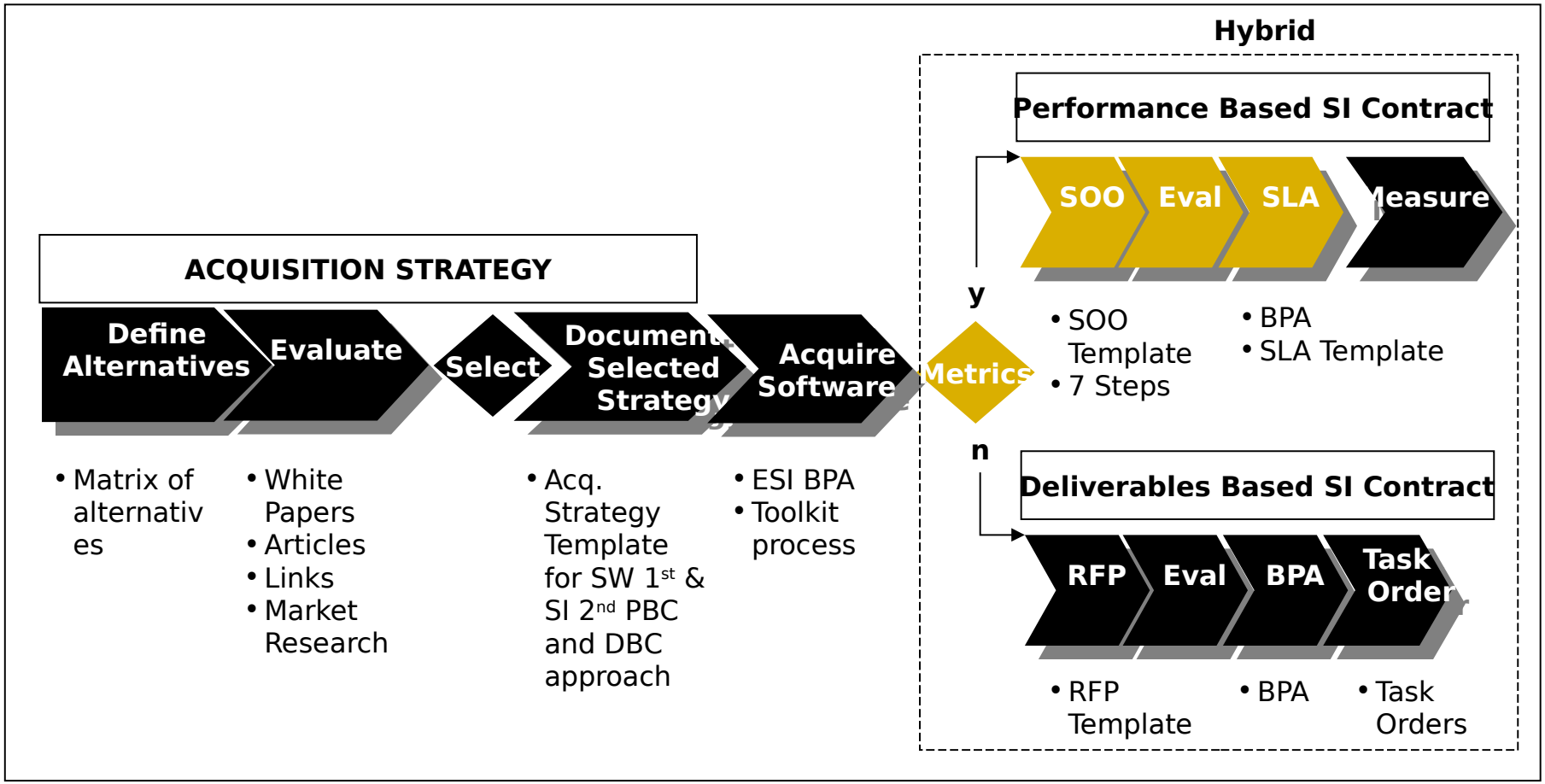
Level 2: Order Fulfillment Lead Time or Total Pipeline Time

DoD Logistics Objectives


Level 2, 3
Warfighting Perspective
Provide optimum responsive logistics support to the joint warfighter to ensure:
• An immediately employable force option
• A rapidly deployable capability
• A sustainable total force
Innovation & Learning Perspective
Ensure a capable workforce responsible for meeting the warfighter logistics support requirements to include:
• Introduction of leading edge advanced concepts
• Organization adaptability
• Workforce shaping
Vision and Strategy
Logistics Process Perspective
Provide effective logistics chain performance and capacity while reducing the logistics footprint to include:
• R&M, Leveraging Global Industry,
IT
Improvements, and Commercial
nces
Resource Planning Perspective
Ensure affordable logistics support through resources and choices that enable effective joint warfighter capability to include:
• Accurately forecast and identify logistics requirements
• Identify and understand the risks associated with logistics resource allocation

Toolkit Acquisition Process

Incorporating ESI



COTS Vendor Product SME Services via ESI

Performance-Based SI Contracting

To Achieve Logistics Performance Metrics

- Capture **Baseline**
- 3rd Party may be needed to help
- LSM workshop on Score -carding
- Sample metrics
- Sample programs

Peer Review

- **SOO Template**
- 7 Steps
- Describe baseline
- Define objectives
- Define process for response

Army/Navy/DLA pilot team members/ESI team members

- Committed Level / % of Improvement
- Fixed v. variable / % of payment tied to achievement
- Bonus scale
- Speed / time to realize benefits
- **Eval trix**

Peer Review

- BPA from ESI
- Task Orders
- SLA Template
- Bid table attached

Summary

- DoD Logistics BSC is based on a proven methodology
- DoD Logistics BSC is anchored by the Warfighter (customer) perspective
- DoD Logistics BSC is consistent with other performance measurement initiatives
  - Encompasses FLE
  - Coordinated with SEC, MID 901, Business Enterprise Architecture, etc.
- DoD Logistics BSC maps directly to the FLE operational architecture
- Created project team and kicking-off DoD Log BSC DII project
  - Define and document level 2,3 metrics
  - Identify data sources and extraction methods
  - Design and build a portal-based BSC dashboard

Agenda

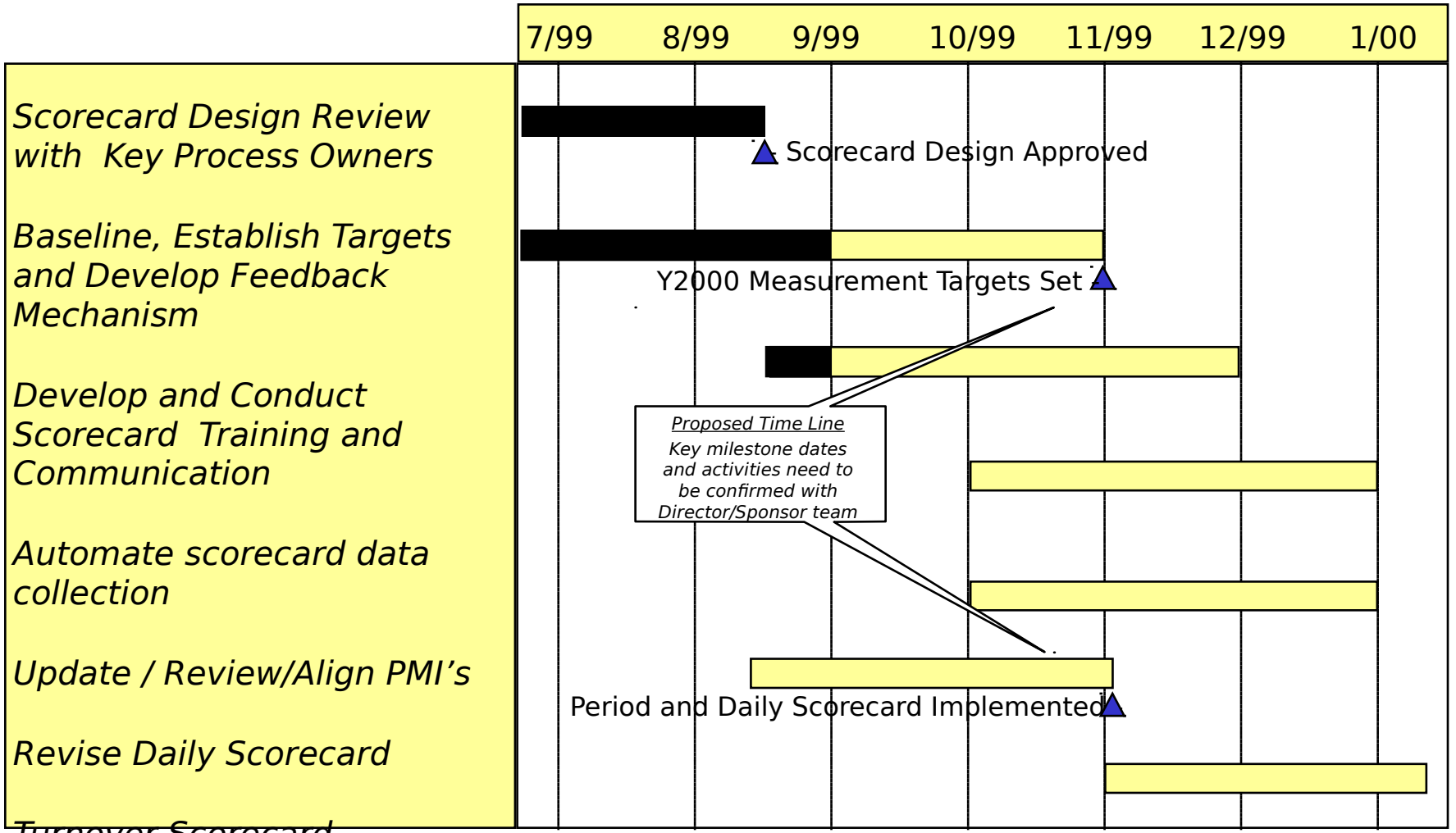
- Why is Performance Measurement/Balanced Scorecard important?
- What are some tools and techniques to get started?
- DoD Logistics Balanced Scorecard
- Questions and Discussion
- Appendix

Agenda

- **Why is Performance Measurement/Balanced Scorecard important?**
- **What are some tools and techniques to get started?**
- **DoD Logistics Balanced Scorecard Process**
- **Questions and Discussion**
- **Appendix**

Sample Deliverables

Balanced Scorecards take a significant amount of time and effort to setup and administer. Detailed planning should start right from the beginning of the process.



The above deliverable illustrates a sample workplan for balanced scorecard implementation. The activities and time required for each workplan will be different.

Sample Deliverables

Each organization will need to determine its own unique set of deliverables during the creation and implementation of the balanced scorecard.

Utility Company IM
Performance Mgmt. Assessment
Work Plan (Phase I)

Task	Description	Estimating Basis	Units	Days/ Unit	Core Team Work Days	Target Date	Deliverables
100	Team Mobilization & Scoping		4	5	5	10-May	Project Approach
110	IM Performance Management Assessment		59	15	52	7-Jun	IM Performance Mgmt. "As Is"/"To Be" Gap Report
120	IM Scorecard Development		9	5	25	7-Jun	IM Balanced Scorecard
130	Scorecard Implementation Strategy		3	8	8	12-Jun	IM Scorecard/Performance Mgmt. Rollout Strategy
140	Phase II Plan Development		16	7	21	12-Jun	Phase II Plan
190	Project Management		16	4	14	Ongoing	Status Reports, Various
199	Contingency				13	Ongoing	
	Total Workdays:				137		
	Total Averaged FTEs (6 weeks)				3		

Approach / Key Activities

- Develop Scorecard review plan and execute
  - Review scorecard design and approach with cross section of entire O&T organization (Directors, Project Managers, MIT's, Team Leaders, Operators)
- Facilitate and guide directors in developing:
  - Reason for change
  - Two year vision for the use of Performance Measurement and Scorecards at Coors
  - Gaps between vision and Plant scorecard design
  - Recommended actions to address gaps
  - Action plan to achieve vision

Who's Responsible

- Performance Measures Team
  - Execute scorecard review communication plan
  - Facilitate Directors (reason for chg, vision, gaps)
  - Develop implementation plan
  - Manage gap closure
- Process Alignment Project Managers
  - Link activity measures to Plant measures
  - Review scorecard
- O&T directors

***When it will be done* and Status**

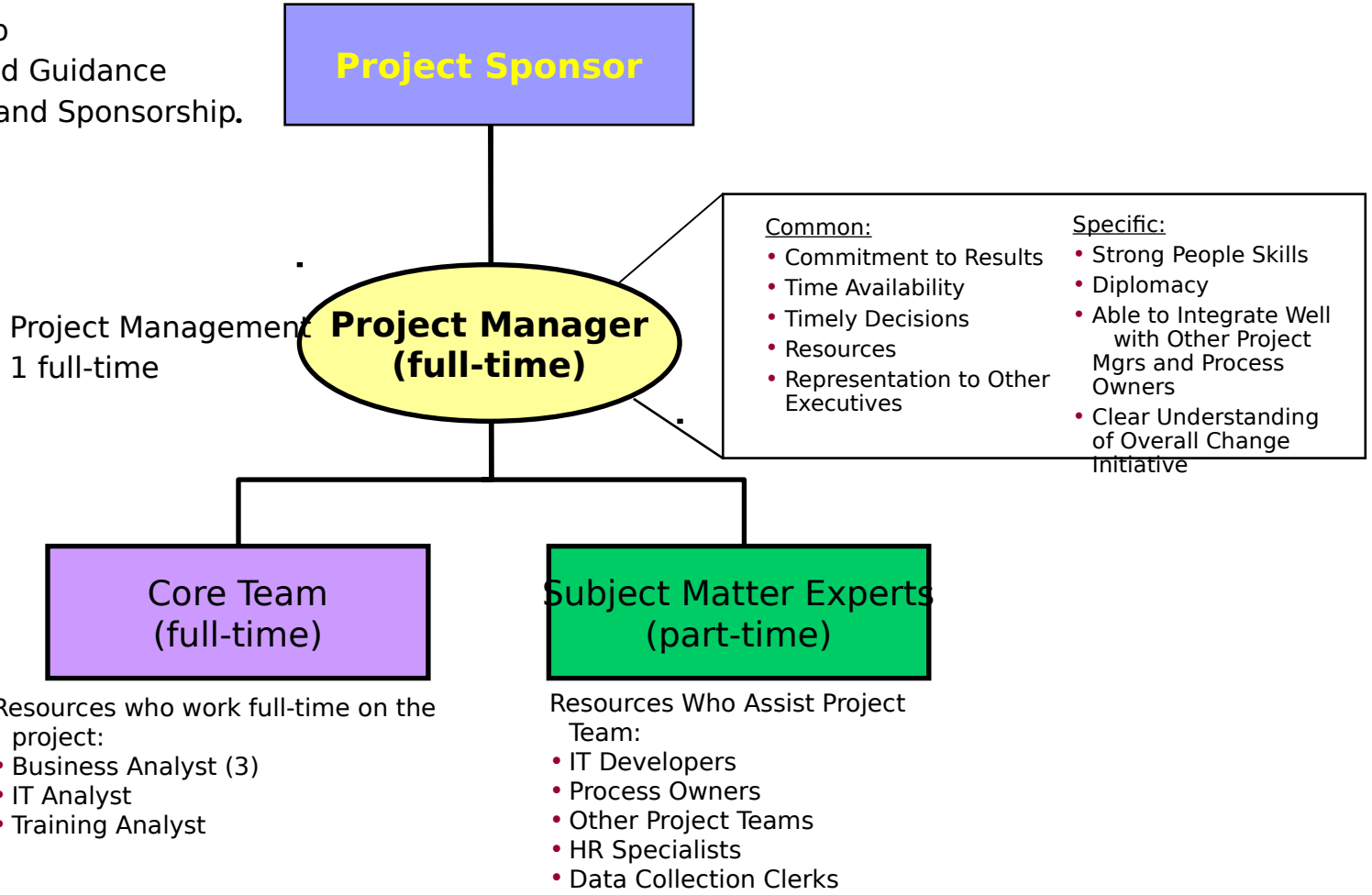
Activity	Time frame	Status
Scorecard review - O&T Cross section	June - July	Cmpl
Reason for Change - Directors	Early Aug	Cmpl
Vision for PM - Directors	Early Aug	Cmpl
Scorecard Design Gaps - Directors	Early Aug	Cmpl
Scorecard gaps closed	Later Aug	Cmpl
Scorecard Implementation Plan	Late Aug	Cmpl

The first deliverable depicted on this page is another sample workplan. This workplan breaks down the activities, target dates, number of workdays, and number of FTE's required. The second deliverable is a sample responsibility chart for a client. Responsibility charts are important to define roles and to set expectations during the Balanced Scorecard implementation process.

Sample Deliverables

Allocation and commitment of key resources is a necessary requirement to the success of the balanced scorecard implementation process.

Program Sponsorship
- Overall Direction and Guidance
- Overall Leadership and Sponsorship.



The deliverable depicted above is a sample organization chart for a client balanced scorecard implementation project. The chart outlines the hierarchy as well as the responsibilities and types of resources and skills required.

Sample Deliverables

The Key Performance Indicators need to link directly to the Critical Success Factors that support the overall strategic priorities.

Perspectives	Objectives	Measures and Metrics
Finance / Shareholder	• Assure future access to capital • Maximize Product Margin • Maximize Profitability	• Solvency, Bond rating • Break-even point in units,Contribution • Net Sales, Capital Turnover and Operating income
Customer	• Minimize Customer complaints • Monitor customer's perception of value • Provide Quality Service	• Customer satisfaction, Number of customer complaints • Customer profile and Focus groups • On-time delivery percentage, Respond time to customer service and requests
Core Business Process	• Monitor Purchasing activities • Monitor Materials Management • Provide Production Flexibility • Effective Education Program	• Number of suppliers, Supplier lead-time • Raw materials supply accuracy, Back order volume • Number of setups per day, Average lot size • Improvements in error statistics, Student feedback
Innovation and Learning	• Integrate use of new technology • Monitor research program management	• Production gains from new technology, Technical innovation • Research spending per time period

The above chart is a sample deliverable. This chart shows the objectives in the four perspectives and the measures and metrics which will measure those objectives.

Sample Deliverables

The metrics selected must relate to and measure the business objectives which in turn must be fulfill the organization's strategy.

Perspectives	Objectives	Measures & Metrics
Financial	• Revenue • Operating Margin • Operating Cost	• Revenue growth in targeted customer segments • Operating margin (EBIT) growth • Operating cost management (Wholesale COSS, Sales & Acquisition costs, G&A, Service Delivery Costs)
Customer	• Number of customers acquired in target segments • Customer satisfaction • Supplier/Vendor/Alliance partner satisfaction • Customer retention	• Number and growth of customers acquired in targeted segments • Customer satisfaction with product packages and overall experience • Supplier/vendor/alliance partner satisfaction with the and vice versa • Retention rate of target customer base and development of loyalty
Process	• Customer care process differentiation • Customer care process execution • Supplier & delivery management execution	• Assessment of customer-facing processes to ensure differentiated customer experience • Assessment of customer-facing processes to ensure efficient, cost effective operations • Assessment of supplier performance against service level agreements and development of "win-win" relationships
Employee	• Employee retention • Skills deployment • Employee ownership • Operational innovation	• Overall retention rate of valuable employees • Measurement of skills/resources against requirements of the business • Assessment of employee "ownership" and buy-in to objectives, leadership, culture and work environment • Assessment of customer-focused operational process innovation, flexibility and new capability development

The sample deliverable shown above is another chart containing scorecard perspectives, objectives, and measures &metrics. This chart shows the objectives for each of the four perspectives and the measures and metrics related to the objectives.

Sample Deliverables

Balanced Scorecards are only effective if the measures and data that are gathered are relevant, accurate, and timely.

Balanced Scorecard Category	Customer Satisfaction
Objective	Satisfied Client / Stakeholders
Critical Success Factor	Satisfaction for all customer groups measured
Type	Outcome measure
Description	Event driven satisfaction of end-users. Satisfaction surveys conducted by Service Control on statistically valid sample of PQR's resolved by Service Control. The sampling is conducted such that we are 95% confident that the entire population is represented.
Calculation	% End Users Satisfied with Service Delivered/ Month
Definition	PQR- Problem Question Request Service Control- Application Service Control CPMT - Common Problem Management Tool
Target	95%
Target Ranges	Red - <75%, Yellow - 75-89%, Green - 90-100%
Frequency	Monthly Collect data daily based on random sampling guidelines
Tools	CPMT
Source of Information	End-Users requesting PQR's through Service Control
Owner	Service Control
Other Considerations	A sampling of end-users are called each month with a brief survey. EA's conduct the survey to eliminate bias that might occur if Service Control did the surveys. A random generator tags every 50th PQR closed in CPMT and generates a report for the EA's to use in calling end-users.
Status (Active/Future/Retired)	Active
Metric Last Revised	2/4/98

The above sample deliverable is a metrics definition sheet which defines a metric in detail. This chart is created for each metric used in the balanced scorecard measurement process.

Sample Balanced Scorecards

Balanced Scorecards are only effective if the measures and data gathered are accurate and timely.

Process

	YTD Target	Status/Trend	YTD Actual
Metric 1	xx%		xx%
Metric 2	tbd		tbd
Metric 3			
Large	$xxx/FP		$xxx/FP
Medium	$xxx/FP		$xxx/FP
Small	$xxx/FP		$xxx/FP
Data Warehouse	$xxx/FP		$xxx/FP
Metric 4			
Large	x.x months		x.x months
Medium	x.x months		x.x months
Small	x.x months		x.x months
Data Warehouse	x.x months		x.x months
Metric 5			
New/Non-Std Technology	x.x months		x.x months
Normal/Standard	x.x months		x.x months
Mature/Legacy	x.x months		x.x months
Premium Service	x.x months		x.x months
Metric 6	xx% satisfied		xx% satisfied
	tbd		tbd

People

	Annual Target	Status/Trend	Annualized Actuals
Metric 1			
Client	x%		x%
AC-BPM	x%		x%
AC-Consultancy	x%		x%
Metric 2			
Client	<x%		<x%
AC-BPM	<x%		<x%
Metric 3	<x%		
Metric 4	xx hrs/person/year		xx hrs
Metric 5	tbd		tbd

Projects & Support

	Status/ (Target +/-x%) Projects	Support
Investment Plan vs Actuals *Total Year Plan =$xxxMM*	$x.xMM variance	$x.xMM var
Fixed Bid Variance *Support =YTD / Projects =Forecast*	$x.xMM variance	$x.xMM var
Demand vs Actuals Hours *YTD*	x M Hr variance	xM Hr variance

Negative Variance is unfavorable

Projects		Support	
Active	xxx	Priority 1 Response Time	x%
Completed	xx		
% of SOW <= Schedule	x%	Priority 1 Resolution Time	x%
% of SOWs <= Fixed Bid	x%		

Year 2000

Retirements (Plan vs Actual) xx,xxx FPs vs xx,xxx FP

Remediations (Plan vs Actual) x,xxx FPs vs x,xxx FPs

Market Deploy	YTD Target	Status	YTD Actual
Revenue Variance (YTD Plan =$x.xMM)	x% Variance		x%

Financials

	YTD Target	Status	YTD Actual
Investment Plan Recovery			
Rechargeability	100%		x%
Recharge Rate vs Cost Rate	x% variance		x%
Net IS Recovery	x% variance		x%
Budget			
Labor Cost Variance	x% variance on '98 budget $xxMM		x%
Seat Cost Variance	x% variance on '98 budget $xxMM		x%
Project/Support Direct Cost Variance	x% variance on '98 budget $xxMM		x%
Prime Budget Offset Variance	x% variance on '98 budget $xxMM		x%
Total Net Cost Variance	x% variance on '98 budget $xxMM		x%